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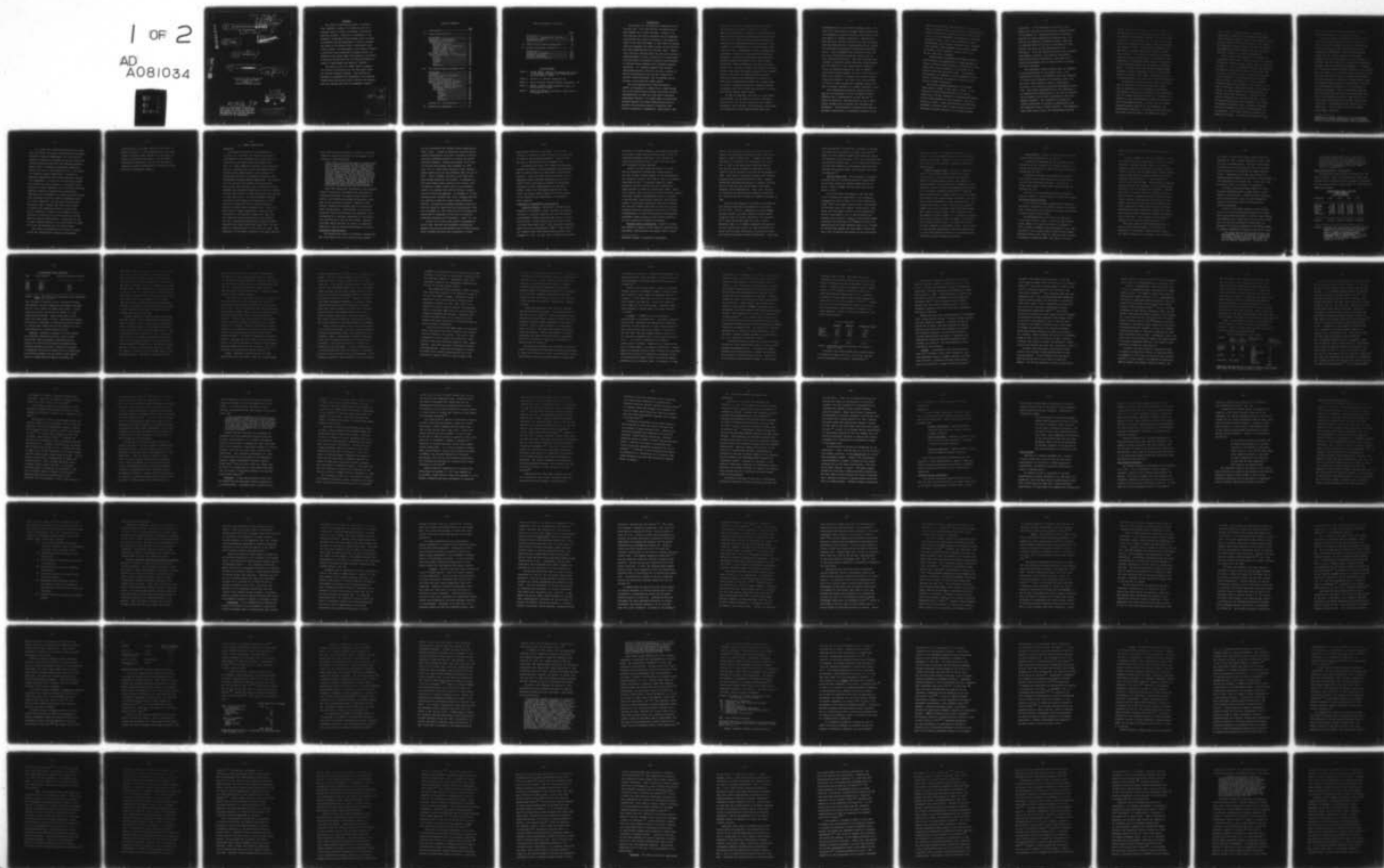
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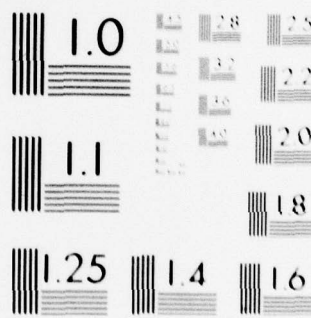
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A Contract Study Prepared for  
The Department of State  
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External Research Program

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# FOREWORD

The Andean integration movement, launched in 1969, embodies a number of initiatives such as a regional code for foreign investment and sectoral planning programs. Need for an assessment of the movement's achievements and problems after six years of operation led the Department of State to examine the status of the Andean Group's subregional integration effort. The Department invited Darrel Dudley, a contractor with background in Andean affairs, to undertake this review under the guidance of the Office of Research and Analysis for the American Republics, Bureau of Intelligence and Research (INR/RAR).

The study is one of a number done by scholars and research institutions for the Department under its External Research Program. Such studies are designed to supplement the Department's own research capabilities and provide policy officers and analysts with the findings and view of independent experts.

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## I. Introduction

The concept of Latin American integration is by no means new. Ever since Bolivar, Pan-Americanists have dreamed of a united continent. Though it is only recently that Latin economists and developmental nationalists have taken an interest in the grand designs of the empire builders, in less than two decades they have tempered the polemic nature of Pan-Americanism with pragmatism and cold economic logic. Technocrats like Raul Prebisch point out that Latin America's underdevelopment is more a function of an inefficient rationalization of production caused by the patchwork of isolated Latin economies than exogenous economic conditions. Dr. Prebisch suggests that economic compartmentalization, which is not only a vestige of Spanish merchantilism, but also the offspring of autarkic industrialization, can be overcome only by creating a Latin American Common Market.

The Latin American Free Trade Association (LAFTA) was supposed to blossom into a common market once trade liberalization wrought sufficient economic complementarity to make such long-term integration commitments feasible. But LAFTA today is essentially moribund because its strong commercialists bias so benefits the existing centers of production that mutual reciprocity is impossible. Multilateral nego-

tiation is the tariff cutting mechanism of LAFTA. All important decisions are subject to a veto. LAFTA's secretariat, the Committee, is staffed not by supranational officials concerned with the welfare of the region as a whole, but by plenipotentiaries who often lack the necessary technical background to contribute to the formulation of a Latin American integration policy. Consequently, LAFTA's complementarity agreements, instead of being region-wide Committee attempts to rationalize production, are usually bilateral arrangements between one of the Big Three (Argentina, Brazil and Mexico) and lesser developed states (i.e., Bolivia, Paraguay and Uruguay) initiated by the former and comfortably oriented to its national market. The Treaty of Montevideo and subsequent protocols contain only parenthetical reference to such policy harmonization measures as a common external tariff, a payments union and a regional foreign investment code; all of which are necessary to protect and finance nascent heavy industry.

In 1964 an important initiative to reform LAFTA was launched. At the behest of Chile's President Eduardo Frei, four of the continent's most capable economists, Raul Prebisch, Felipe Herrera, Carlos Sanz de Santamaria and Jose Antonio Mayobre made some

recommendations to avert LAFTA's pending crisis. The "wise four" noted that the present LAFTA structure was too vulnerable to special interests and called for new instruments to expedite integration. Specifically, they wanted to restrict the use of the veto and transform the Committee into a supranational entity capable of formulating an apolitical region-wide integration policy. They recommended that industrialization and not trade liberalization play the central role in Latin American integration. They also suggested that a system of automatic tariff reductions be established and the loopholes in the liberalization formula be closed; an obvious reference not only to LAFTA's agricultural escape-clauses, but also to its Protocol 1, which is so worded as to require the freeing of only traditional products. The "wise four" also proposed a reciprocal credit system and a payments union, and made an oblique reference to a common investment policy.

This integration program was adopted almost in toto by the Presidents of Chile, Colombia, Ecuador, Venezuela and a representative of Peru who met at Bogota on August 15, 1966 and agreed to form a subregional economic bloc to perfect the "Association's mechanism." The Declaration of Bogota states that an equitable distribution of integration benefits can be

achieved only through close multilateral cooperation among the Andean states in the areas of industrialization, finance, agriculture, research and infrastructure projects. Sectoral industries, the backbone of this new integration effort, were to be protected by tariff differentials and a uniform investment code. Negotiations leading to the Agreement of Cartagena, signed by Bolivia, Chile, Colombia, Ecuador and Peru on May 29, 1969, were initiated.

Unlike LAFTA's integration philosophy, which regards economic interdependence as a sine qua non of central planning, Andean strategy is predicated on the belief that central planning is a precondition of balanced trade and equitable growth. Consequently, the Agreement of Cartagena is as developmental as the Treaty of Montevideo is commercial; planning is the engine of Andean integration.

The central planning mechanism of the Andean Common Market (ANCOM) is the Junta or Board. It is composed of three technocrats who do not receive instruction from any government or international agency, but act with reference to the interests of the sub-region as a whole. These supranational officials have assembled a talented staff of about thirty-five professionals and make extensive use of highly trained

consultants. As the permanent secretariat of the Andean Pact, the Board has three basic responsibilities; it is supposed to: formulate proposals for sectoral programs and other harmonization measures after conducting the necessary feasibility studies; supervise the implementation of the Pact's instruments of integration; and carry out the instructions of the Commission. Given the Board's technical role in ANCOM's developmental strategy, this body has considerable policy-making power, especially in the areas of industrial programming and the harmonization of economic and social planning.

The Commission, ANCOM's supreme body, is composed of plenipotentiaries of the member states. Such representation makes the Commission much more sensitive to the political interests of the member states than the Board, whose mandate, under the Commission's direction, is to articulate regional development priorities. The primary responsibility of the Commission is to formulate the general policy of the Pact by instructing the Board in such areas and passing on their subsequent proposals. The interplay of national and regional priorities is visible in modifications that the Commission makes in Board proposals. The Commission meets three times a year, and extraordinary sessions

may be convoked by petition. Decisions are made by a two-thirds majority. Proposals in such crucial areas as industrial programming, economic and social policy harmonization and amendments to the Pact, where vital political interests of the member states are involved, are subject to veto. In this respect ANCOM has not been able to insulate the central planning process from politics. To countervail potentially disruptive political forces, Board members are appointed by the Commission for three-year terms, whereas the chairman of the Commission serves for one year on a rotating basis. In theory this gives the Board members added leverage in policy-formulation since it affords them greater familiarity with issues, especially those of a technical nature, than their more transient superiors.

In practice, the Board has been more a consultant than an architect of regional integration policy. This is especially true in industrial programming--the regional allocation of industry, and the harmonization of economic and social policies; a necessary concomitant of any industrialization scheme that seeks to alter development patterns. To date, the only Board sectoral proposal approved by the Commission, the Metalworking Agreement, is currently being revised by a body other than the Board to accommodate the Pact's

late - comer, oil-rich Venezuela. Moreover, the Commission's instructions on industrial programming often vitiate the Board's ability to formulate sectoral programs based on efficiency criteria. For example, the Commission recently ordered the Board to design a petrochemical sectoral program with five industrial complexes instead of a single integrated one.

Other harmonization measures are likewise encountering difficulties. Although the Pact is supposed to approve a Common External Tariff (CXT) no later than December 31, 1975, the present stalemate over industrial programming has placed the Board so far behind schedule that it has yet to make an initial CXT proposal to the Commission. The Andean Foreign Investment Code (the AFIC or Decision 24), a Board proposal accepted almost carte blanche by the Commission, has been so modified in application that it has failed to achieve its avowed purpose of "uniform treatment of foreign capital and technology." Progress in sub-regional financing has also been sluggish. Most of the subregional capital made available to the Andean Development Corporation (ADC), the semi-autonomous financial instrument of the Pact chartered prior to the Agreement of Cartagena, has been earmarked for commercial activity. So limited have been its funds

that only recently has the ADC been able to finance projects in excess of a few million dollars.

Ironically, most of the progress of the developmentalist-oriented Andean Pact has made during its first 6 years of existence are in the commercial and functional fields of trade liberalization, tariff nomenclature (NABANDINA\*), unfair trade practices, double taxation, tourist transit by automobile, proposals for the establishment of a small Andean air and ship line and a revival of cultural and educational exchange under the Andres Bello Agreement. It appears as if ANCOM has reached the same watershed in its development that LAFTA hit in mid-1964 after all the easy tariff cuts had been made and further progress required hard political decisions. History will repeat itself unless the Andean nations display more willingness to pay for Pact developmental programs out of the currency of economic sovereignty. This is disquieting news for the Pan-Americanists who regard the subregional movement as an inexorable historical trend that will expedite overall Latin American economic and political integration. Nationalism is alive and well in the Andean Pact. This is especially true of ANCOM's newest member, Venezuela.

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\*NABANDINA is ANCOM's adaptation of the nomenclature system of its parent organization, known as NABALALC. Both are derived from the Brussels Customs Nomenclature.

In a recent news conference President Perez said that his country was rapidly accumulating the necessary reserves to assure "independence" in its decisions.<sup>1</sup> Apparently Venezuela's newfound wealth has transformed limited integration aims into more ambitious designs. Caracas seeks to undermine subregional planning by reducing the role of the technocrats (i.e., the Board) in integration policy formulation. Venezuela is generally apprehensive about across-the-board integration commitments. In the area of industrial programming Caracas has been reluctant to relinquish future production rights; especially vis-a-vis third countries. Venezuela vigorously supports both multisectoral complementarity agreements, an industrialization scheme that eliminates exclusive product assignments except for minor commodities, and the Andean Multinational Enterprise (AME), because they would allow Caracas to capture the subregional market by giving full play to Venezuela's financial and industrial muscle. Venezuela's foreign policy vis-a-vis the rest of the world is equally expansionistic. Aside from its role in OPEC, Venezuela aspires to be Latin America's spokesman in the new dialogue with the United States.

This study is divided into two sectors focussing on both the institutional trapping and subsequent

implementation of the most important instruments of Andean integration: trade liberalization, the Andean Foreign Investment Code, Industrial Programming, the Andean multinational enterprises, and the Andean Development Corporation. Let us first examine the commercial strand of ANCOM before discussing its more important developmental aspects.

## II. TRADE LIBERALIZATION

### Background

The primary objectives of the Agreement of Cartagena are to promote the "balanced harmonious development" of the subregion and an "equitable distribution of the benefits derived between them." (Art. 2). Thus, ANCOM has relegated trade liberalization to a secondary role in the integration process because simple commercialism, in the absence of a concomitant alteration in production patterns, only exacerbates existing economic disparities. The reasons for this are both self-evident and interrelated. Tariff rates vary inversely with a country's resource endowment and production capabilities; that is, nations maintain high tariffs on goods they produce and low ones on those they do not. For less developed countries like Bolivia and Ecuador this means they can offer substantial preference only on primary products. Moreover, because these countries are at a more incipient stage of import substitution, they are more vulnerable to intraregional competition, which not only displaces their production but also promotes the sale of subregional manufactures, which are more expensive than those outside the trade area. All this leads to a deterioration in their terms of trade. The experience of the Andean countries in the Latin American

Free Trade Association offers an example of existing centers of production gaining at the expense of the relatively lesser developed.

Under LAFTA, the Big Three (Mexico, Argentina and Brazil) gained the most benefits from trade and were the most successful in attracting investments. The second group (Chile, Colombia, Peru, and Venezuela) generally suffered unfavorable trade balances in intra-LAFTA commerce and were the most critical of the free trade principle in economic integration. The third group (Bolivia, Ecuador, Paraguay, and Uruguay) was granted non-existent tariff concessions, but took little advantage of these. The annual negotiation of bilateral tariff concessions, extendible to all LAFTA members under the most-favored-nation <sup>2</sup> principle, has become less and less fruitful.

Aware that subregional integration is not possible without reciprocity, the Andeans have abandoned the traditional principle of equality among nations in order to give Bolivia and Ecuador preferential treatment in the integration process. Nowhere is this special treatment more evident than in the field of trade liberalization. Nevertheless, it can not be overstated that such advantages are ephemeral if not accompanied by an eventual improvement in the production capabilities of Bolivia and Ecuador; temporary advantages merely postpone the impact of commercial competition from the more-developed Andean countries.

#### Progressive Liberalization

The Andeans have tried to incorporate automaticity and irrevocability into the tariff cutting process;

two key ingredients that ANCOM's parent organization, LAFTA, lacks. Instead of relying on laborious multi-lateral negotiations, which are vulnerable to special interests, ANCOM has opted for an annual 10% tariff reduction schedule. Bolivia and Ecuador do not have to initiate this process until December 31, 1976 (Art. 100, F); which means tariffs on their intraregional imports will not be eliminated until the end of 1985. Chile, Colombia, and Peru on the other hand, have already started to cut tariffs. On December 31, 1970 they lowered their tariffs to the Initial Point of Departure (lowest tariff rate of said countries unless it is greater than 100% ad valorem, in which case the latter rate applies). On December 31 of each successive year through 1980, Chile, Colombia and Peru are required to make 10% linear tariff reductions. Moreover, although the Cartagena Agreement stipulates that all nontariff restrictions on intraregional trade end on December 31, 1970, only Bolivia and Ecuador are authorized to compensate for the loss of nontariff protection through tariff adjustment. (Arts. 42 & 46)

As well as a 5-year grace period in implementing tariff cuts, Bolivian and Ecuadorean intraregional exports also enjoy an accelerated pace of liberalization. Chile, Colombia and Peru have eliminated, in three

annual steps beginning on December 31, 1971, all tariffs in increments of 40%, 30% and 30% respectively on Bolivian and Ecuadorean products. (Article 97a). The case of Venezuela will be discussed later.

At present only about 27% of ANCOM intraregional commerce is subject to the progressive liberalization.<sup>3</sup> Most of these products are unprocessed foods and raw materials. Some fuels and ores are included, "but no important items of general manufacture are in this trade."<sup>4</sup> This trend must be reversed or the present structure of trade liberalization, by failing to create a market for subregional manufacture, will thwart the avowed general purpose of the Pact which is the formation and consolidation of indigenous heavy industry.

#### Exceptions to Progressive Liberalization

Sectoral Products. Decision 25, issued by the Commission in December of 1970, reserves for possible inclusion in sectoral programs just over 600 entries from NABALALC (LAFTA's Brussels-type system of tariff nomenclature), varying from broad four-digit entries to narrow seven-digit ones.<sup>5</sup> This aggregate represents about 13% of all intraregional trade.<sup>6</sup> These products are exempted from trade liberalization process until December 31, 1975. At that time, if they have not been

included in an SPID\* agreement, they shall be included in the basic trade liberalization process calling for regularly scheduled reductions. This deadline is likely to be extended since to date, only one major SPID agreement has been approved.

Products in this group [See Annex A for list] have an impressive intraregional trade potential. Not only do they include products of the petrochemical and automotive sectors, but items of newer and expanding industries as well. At present newsprint, paper, synthetic yarn and cord are the most important of these products in terms of intraregional trade. Observers, however, point out that if tariffs and other restrictions were removed, intraregional trade in a variety of manufactures, particularly machinery, would expand rapidly.<sup>7</sup> Some Andean technocrats have even suggested that sectoral products will make up the bulk of intraregional trade once integration gets under way.<sup>8</sup> This interdependence of trade liberalization and industrial programming makes progress on both fronts imperative to avert stagnation in ANCOM's development.

National Lists of Exceptions. Article 55 allows Pact members to except a given number of products from progressive liberalization and subject them to normal

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\*Sectoral Program of Industrial Development.

tariff rates provided they are produced in the sub-region, not reserved for sectoral programs and do not appear on LAFTA's Common List. Colombia and Chile can place 250 products on an exceptions list; December 31, 1985 is the date these exceptions expire. Peru has an initial allotment of 450 which it must reduce to 350 by the end of 1974 and 250 by December 31, 1979. Like those of Chile and Colombia, all Peruvian exceptions will expire by the end of 1985. Ecuador enjoys 600 exceptions and Bolivia is allowed "not more than 350 Items and [in] 50 Sub-items of the LAFTA Brussels Tariff Nomenclature." (Art. 102) The date of expiration for Bolivian and Ecuadorean exceptions is 5 years after that of other Pact members; December 31, 1990.

The Pact was supposed to formulate a timetable for the gradual extinction of exceptions in the second half of 1974. (Art.57) Apparently no such agreement has been reached, and only Colombia maintains fewer exceptions than is legally admissible; 182 instead of 250.<sup>9</sup> Unless exceptions taper off prior to their expiration date, it is highly improbable that products in this category will revert to trade liberalization, since such an abrupt termination of exceptions protection would cause severe economic dislocation. This would

merely perpetuate a system that is already "a substantial check on the process of economic integration."<sup>10</sup> Among the most important ANCOM trade items that appear on exceptions lists are sugar, fuel, oil, pharmaceuticals and synthetic polymer yarn. It is evident that products with the most promising intraregional trade potential, including many manufactures, are covered by the lists of exceptions.<sup>11</sup>

LAFTA's Common List. The Agreement of Cartagena requires that all tariff and nontariff restrictions on the first section of LAFTA's Common List be removed. Chile, Colombia and Peru took this step on April 14, 1970.

Of the 175 items that appear on the list only 9 are of commercial significance in the subregion; together they make up about 37% of total subregional trade.<sup>12</sup> Most are primary products; 69% is unprocessed agricultural goods like bananas, coffee beans, cacao beans, and long-staple cotton; 1% is processed food-stuffs (cacao powder); 18% is semi-processed fish products (oil and meat); copper ore and refined copper constitute the remaining 12%.<sup>13</sup> Despite the fact that opportunities for trade expansion exist (e.g., Ecuador is selling more bananas and cocoa beans to Chile and Peru; Peru is finding new markets for its long-staple

cotton and fish-oil in Colombia and Chile,) it is unlikely that freeing LAFTA's Common List will generate capital-goods trade. Moreover, cotton, cacao beans and bananas are all subject to ANCOM's agricultural escape clause.

ANCOM's Escape Clause. Decision 16 approved a list of agricultural products subject to escape-clause action. Under this system the importing country can impose restrictions on the imports of listed products "to the quantities necessary to cover deficits, but not to reduce consumption of the product or to increase uneconomic production."<sup>14</sup> Although these safeguards are somewhat easier to invoke against Pact members other than Bolivia and Ecuador, they still pose a serious obstacle to trade liberalization. The escape-clause list is long. Besides such important Common List items as cotton, cacao beans and bananas; beef, apples, pears, tobacco leaf, unroasted coffee and timber are also included. It is therefore unlikely that Chilean exports of beef and apples, for example, will increase significantly. The same can be said of Peru's exports of long-staple cotton. Any increase in intraregional agricultural trade will probably be in goods that complement those of the importing state and do not threaten domestic production.

Miscellaneous. Products in this category include those cited in Decisions 26, 28 and 29.

Decision 26 lists products not produced in the subregion and not reserved for sectoral programs. All duties and restrictions on these items were eliminated by February 28, 1971.

Decision 28 reserves for production in Bolivia and Ecuador certain items that are not currently produced in the subregional programs. Likewise all trade restrictions on these items were eliminated by February 28, 1971.

Decision 29 cites products that were completely freed on January 1, 1971 in favor of Bolivia and Ecuador.

The Common External Tariff

In an effort "to create progressively a margin of subregional preference" for products subject to progressive liberalization, the Treaty of Cartagena provides for a Common External Tariff (CXT).

The implementation of the CXT is to take place in two basic stages. First, a Common Minimum External Tariff (CMXT) is to become effective on December 31, 1975 for Chile, Colombia, Peru and Venezuela (i.e., the principals), and 5 years later for Bolivia and Ecuador. National tariff rates of May 26, 1969 are used as points of departure toward the CMXT. See table 1, for the

CMXT rates approved by the Commission in December of 1970.

Between December 31, 1971 and December 31, 1975 the principals are to bring their tariffs in line with the CMXT in annual automatic steps. The CMXT is generally lower than the present individual national tariff schedules, but its application involves raising rates on some items in national schedules of those countries listed in Table 1. Only Colombia has tariffs lower than the CMXT: differentials include 2% on petroleum and coal products, 8% on non-electrical machinery, and 15% on electrical machinery. Bolivia will have to rise its tariffs in fishing, food products, tobacco, clothing and shoes, leather products, rubber products, petroleum and coal products, basic metals, non-electrical and electrical machinery and other industries to CMXT levels by the end of 1980. Interestingly enough, Venezuela, Colombia and Chile have recently either deferred or delayed the application of the CMXT. This situation is given special attention in the section on Venezuela (p. 39).

The second phase of CMXT implementation is to begin no later than December 31, 1975 when the Commission is to approve a Common External Tariff. The larger countries, or principals, are to adjust to

CXT levels in five annual linear steps starting on December 31, 1976. Ecuador and Bolivia enjoy a five year lag in implementation. Because of the present stalemate over sectoral programs, the Pact has made little progress in formulating the Common External Tariff. Indications are either the CXT will be a slightly modified version of the CMXT, or the December 31, 1975 deadline will be rolled back. Either will have an adverse effect on the pace of integration.

The above mentioned process leading to a sub-regional CXT applies only to goods subject to progressive liberalization. Common External Tariffs for other Andean products, such as those reserved for possible inclusion in SPID's are determined by separate agreements.

Critics of the Common External Tariff maintain that it is overly protectionistic because no obligations exists before December 31, 1976 to lower tariffs and therefore it is likely that the CXT will be higher even than its CMXT predecessor, about which the President of Peruvian delegation at the Andean Chamber of Commerce Convention in Bogota in June of 1971 said:

...the Common Minimum External Tariff which has been approved has, in our opinion, a highly protectionist character that will not favor growth of efficient industries since there will be a lack of adequate competition. In effect, the

protection authorized for raw materials is as much as 20 percent; for semi-manufactures, it is in the order of 30 to 40 percent; and for manufactured products it is between 40 and 100 percent, since so-called nominal protection represents for manufacturers more than double effective protection.<sup>15</sup>

Trade Liberalization: An Evaluation

Intraregional trade has more than doubled in the 1970-73 period. Trade in non-traditional goods "has tripled since the signing of the Agreement of Cartagena, but the starting base was quite small."<sup>16</sup> Below are two ANCOM trade tables.

INTRAREGIONAL TRADE 1970-1973

Total Exports  
In U.S. Millions

Countries	1970	1971	1972	1973
Bolivia	5,958	20,408	19,221	32,504
Colombia	67,492	77,765	81,033	116,474
Chile	21,491	27,187	20,244	15,336
Ecuador	14,589	19,147	30,221	71,461
Peru	26,290	26,769	31,810	45,125
Venezuela	38,413	53,361	48,435	70,000
Totals	174,233	224,637	230,964	350,900

Source: Prepared from the Statistics Section and the Department of Economic Policy of the Board (1973) as cited in Corporacion Andina de Fomento, Agenda de Primera Asamblea Extraordinaria de Accionistas 21 al 22 de noviembre, 1974, Caracas, Octubre 31, 1974, "Comercio Intrasubregional 1969-1973," Cuadro No. 3, p. 59.

Intraregional Trade 1969-1973

Year	Total Exports	Annual Percentage Increase
1969	170.5	
1970	174.2	2.1
1971	224.6	28.9
1972	230.9	2.8
1973	350.9	52.0

Source: Ibid., "El Comercio Intraregional Entre 1969-1980," Cuadro No. 1, p. 57.

This increase is probably as much a spinoff of heightened personal contact, especially among Andean businessmen, as it is a result of ANCOM trade policy. A brief country-by-country analysis of the impact of trade liberalization follows. Andean trade data is both scarce and lacks detail, so that a comprehensive special study would be necessary to determine the precise nature of intraregional trade flows and the impacts of tariff liberalization as a trade promotion factor.

Bolivia. Although it appears as if Pact members have generally complied with their tariff cutting obligations under progressive liberalization and Decision 29, Bolivia has frequently complained that nontariff barriers are used to restrict its exports. In September 1972 Bolivia accused Chile of manipulating its multiple exchange rate and import classification system to reduce Bolivian exports of whiskey and

marmalade. Chile quickly retorted that such things were the "exclusive" concern of each Pact member. More recently La Paz has charged Peru with using similar measures against Bolivian beer. The Bolivian National Coordinator of Private Enterprises recently remarked that "other countries were also not abiding by the Pact."<sup>16a</sup> To assuage Bolivian dissatisfaction some Andean technocrats have suggested that Argentina be allowed either to join ANCOM, or to be given associate status, and Bolivia be given preferential treatment in Argentina tariff reductions with respect to other members of the group.<sup>17</sup> Venezuela has expressed opposition to this idea.

Despite nontariff violations committed against Bolivian exports, trade liberalization ostensibly is having a salutary affect on Bolivia's intraregional trade. Bolivian exports to Pact members increased from \$6 million in 1970 to \$33 million in 1973. (See Intraregional Trade 1970-1973, p. 22). This may be due as much to an increase in Bolivian high quality crude oil intraregional exports, as to preferential trade treatment.<sup>18</sup> Though Peru is now ANCOM's biggest importer of Bolivian crude, Chile hopes to increase its imports of Bolivia's current 38,000 barrel a day petroleum surplus. Pipelines are being built from

Santa Cruz and Sica-Sica to Arica.<sup>19</sup> Construction has begun on a new storage terminal with a capacity of 2 million barrels at Arica.<sup>20</sup> Argentina and Brazil are the chief regional importers of Bolivian petroleum and gas. Bolivian intraregional trade is still a small fraction of her overall trade. Argentina remains Bolivia's chief trading partner.

The real test of Bolivian dedication to integration will come when the country initiates the process of progressive liberalization scheduled to begin at the end of 1976; thus far Bolivia has only been required to free trade on LAFTA's Common List and products produced outside the subregion, and to eliminate nontariff barriers. Despite this relaxed pace of trade liberalization, the chilly winds of competition are already being felt in Bolivia. American consultants recently predicted the collapse of the Bolivian textile markets unless local manufacturers greatly increase their competitiveness.<sup>21</sup> Progress in industrial programming remains a sine qua non of Bolivian Pact participation. Bolivia is a strong advocate of detailed plant location planning because without it the country is "at a disadvantage in attracting new Andean industry."<sup>22</sup>

Chile. Although a staunch advocate of trade liberalization at the outset, Chile has violated ANCOM

trade commitments more frequently than any other Pact member. Chilean use of nontariff barriers has already been cited. Other violations that took place under the Allende regime included failure to implement the 1972 and 1973 ANCOM tariff cuts; (i.e., 20% reductions on goods from Peru and Colombia and 60% tariff cuts on Bolivian and Ecuadorian imports). These were not made until March 15, 1974.<sup>23</sup> Moreover, Allende used LAFTA safeguards extensively to protect Chilean manufactures and to exclude competitive foodstuffs. These were finally revoked on October 30, 1974 after the overthrow of the Allende regime, partly as a token of Chile's adherence to the Pact despite its new liberal foreign investment law Decree 600, which met strong objections from other Andean group members.

Chile's erratic track record in trade liberalization is partly the result of severe economic problems. Inflation reached about 300% a year toward the end of Allende's tenure. Unemployment has been exacerbated by the belt-tightening measures of the new military government. Chile has been forced to recently renegotiate its foreign debt. In such circumstances it is understandable why Chile is reluctant to squander precious foreign exchange on Bolivian marmalade. Chile, although originally a major supporter of the formation

of ANCOM, is no more willing to sacrifice its national interests on the altar of subregional integration than are other Pact members. Consequently, Chile will continue to hedge on its integration commitments as long as its economy remains chaotic.

The present military government, however, insists that trade liberalization is an important element of its new "Open Model" economy. President Pinochet announced a major modification of Chilean tariff schedules on August 14, 1975. Most tariffs were slashed from 120% to 80% ad valorem. The immediate impact on aggregate imports will be small because of offsetting exchange rate changes. Presumably the Chilean government will try to convince its Pact partners that high tariffs are no longer necessary to achieve economic integration.

Chile is the only Pact member whose intraregional exports declined in the 1970-73 period; they dropped from \$21 million to \$15 million. This drop is more a symptom of a sick economy and isolationist trade policies than trade diversion caused by trade liberalization. Chile has also been victimized by soaring petroleum prices. Chile has the biggest oil deficit in ANCOM; Chile imported approximately 75% of the petroleum it used in 1974 at a cost of about \$338

million, up from \$120 million in 1973.<sup>24</sup> The Pinochet government has been vigorously exploring the Straits of Magellan for oil. Chile is also courting ANCOM oil producers such as Bolivia and Ecuador. Recently presidents Pinochet and Banzer met in the small Bolivian hamlet of Charana and signed a non-aggression pact restoring diplomatic relations.<sup>25</sup> Some have speculated that Chile may be willing to cede Bolivia a small enclave for a port in exchange for a special oil deal.

Brazil has proposed a joint plan for refining and marketing Chilean copper. The Brazilians want to swap aluminum for copper.<sup>26</sup> Chile and Argentina are building a railroad tunnel through the Andes that will increase bilateral trade; especially in agricultural products. Chile is participating in a feasibility study to build a 1,250 mile road linking Antofagasta, Salta and Asuncion. General Stroessner of Paraguay reportedly has sought trade and credit arrangements with Chile in return for free port privileges for Chilean goods at Villeta.<sup>27</sup>

The military government has succeeded in reducing Chile's food deficit by decreeing the "inexpropriability of farms of 40 hectares or less," and eliminating export restrictions on all agricultural products except wheat

to stimulate production. Although the government still subsidizes wheat, flour and sugar, it wants to end all such supports by turning production over to private enterprise.<sup>28</sup>

Recent trade data on Chile is almost nonexistent. Chilean exports to Colombia of copper, lentils, apples, wire, fish-oil, fruit, paper and fish-meal have increased. In 1974 Chile had a \$4 million trade surplus with Colombia (See page 31). Chile also maintains close commercial ties with Ecuador. Recently, Chile began shipping a limited number of Peugeot vehicles to Ecuador.

Colombia. Colombia is the most aggressive commercialist in the Andean Pact. Government spokesmen have stressed repeatedly that ANCOM's most important objective "is the promotion of trade liberalization."<sup>29</sup> This commercialist bias is not simply a reflection of the fact that "the more advanced member countries in an integration movement tend to favor trade liberalization;" it is also in harmony with Colombia's strong market tradition. Competition is viewed as the most efficient means of increasing productivity. Bogota, despite occasional rhetoric about "ideological pluralism," doubts the viability of industrial programming because it interferes with market forces, by fostering import substitution on a regional scale. Programming, to many

Colombians, is a euphemism for socialism. Consequently, Colombia took a firm commercialist stand, during the Cartagena negotiations. It was Colombia that proposed a 6-year trade liberalization period, instead of the present 10-year interim, and only relented after Peru modified its developmentalist position, thus paving way for the Agreement of Cartagena. Recently Colombia's desire for accelerated trade liberalization has resurfaced. David Barbosa, the Colombian Sub-director of Integration (INCOMEX) announced that his government would soon present a new trade liberalization scheme to the Commission to expedite the formation of a common market.<sup>31</sup> It is rumored that this plan will give highest priority to the agricultural sector, whose stagnation Colombia claims has been exacerbated by ANCOM's industrial programming bias. In January 1975, Colombia unilaterally cut tariffs by 10% on medicines, iron and steel, domestic washing machines, dry cell batteries, zinc products and synthetic fibers.<sup>32</sup>

A second and related reason for Colombia's renewed interest in trade liberalization has to do with present national development policy. By emphasizing export expansion and diversification, Colombia has embarked on a program of outward directed growth. ANCOM, next to the United States and West Germany, is the largest

Colombian export market. More than 50% of all Colombia's nontraditional exports is sold in the sub-region;<sup>33</sup> whereas only 20% is marketed in the United States. Colombia enjoys the biggest slices of ANCOM's trade, in 1973 Colombia accounted for about 33% of total intraregional exports (see p. 23). Moreover, Colombia's current export slump (receipts dropped off \$100 million in the first quarter of 1975),<sup>34</sup> combined with the fact that Colombia will shortly be a deficit petroleum producer, have stimulated incentives for trade expansion. Below is a chart of Colombia's 1974 ANCOM trade balances.

(In U.S. Millions)

	<u>Exports</u>	<u>Imports</u>	<u>Balance of Trade</u>
Bolivia	7.1	2.3	+4.8
Chile	36.5	40.5	-3.9
Ecuador	45.6	30.2	+15.4
Peru	41.7	25.1	+16.7
Venezuela	71.4	28.2	+43.1
	<hr/>	<hr/>	<hr/>
	202.3	126.3	+76.1

Source: Department of State Airgram, A-46, Bogota, April 17, 1975.

Colombia's \$76 million ANCOM trade surplus helped to finance its trade deficits of \$37 million and \$28 million with Mexico and the EEC, respectively.<sup>35</sup>

Colombia's intraregional exports have increased from \$67 million in 1970 to \$116 million in 1973 (See p. 22). Much of this increase is based on heightened trade with Venezuela, which did not formally join ANCOM until January 1, 1974. Trade with Chile in such things as cotton, crude oil, cardboard and razor blades has increased 100%.<sup>36</sup> The Colombians have been making inroads into the Peruvian economy as well. Most of Colombia's exports to Peru are traditional commodities such as oil and beef.

Despite the fact that Colombia benefits from ANCOM's trade liberalization program, it has not always complied with Pact deadlines promptly. Colombia delayed the second set of tariff cuts (10% reduction on imports from Peru and Chile and a 30% reduction on Bolivian and Ecuadorean imports) for two months because of "complex administrative procedure." Apparently the bureaucratic bottleneck has been eliminated since Colombia, on January 1, 1975 implemented the fourth consecutive 10% reduction.

Ecuador. Intraregional trade represents only about 9% of Ecuador's total trade, despite the fact that Ecuadorean exports to ANCOM increased five-fold from 1970-1973. Ecuador's principal intraregional exports are crude oil, bananas, coffee and cacao.<sup>37</sup>

Ecuador's chief ANCOM trading partner in 1972 was Chile which purchased about \$14 million of the former's exports.<sup>38</sup> Chile has extended Ecuador a credit of 180 days on traditional commerce, and 360 days on non-traditional commerce.<sup>39</sup> Both countries seek more than commercial ties. The recently established Commission Tecnica Chileno-Ecuador has identified 17 projects in electricity, paper, fruit, metalworking and food that may evolve into binational enterprises of Andean Multinational Enterprises (AMES).<sup>40</sup> The Chilean interest in Ecuador is as much geopolitical as economic. By maintaining friendly relations with Ecuador, which is not only a long-standing rival of Peru but also situated on the latter's northern flank, Chile hopes to enhance the security of its northern provinces. Other ANCOM trading partners in order of importance, are Colombia, (which purchased \$10 million in Ecuadorean goods in 1972); Peru, (\$6 million in 1972); Bolivia, (slightly more than \$2 million); and Venezuela, (whose imports from Ecuador were less than \$2 million in 1972).<sup>41</sup>

Ecuador's most encouraging intraregional trade trend is the increase of semi-manufactures and manufactured exports. In 1970 Ecuador sold less than a half million dollars of such items to other Pact members. By 1973 the receipts of capital goods sold in

ANCOM totalled nearly \$10 million.<sup>42</sup> This increase is due in part to the implementation of Decision 29.<sup>43</sup>

Ecuador's intraregional trade boom may be tied as much to exogenous economic conditions as to ANCOM trade policies. Of Ecuador's nearly \$72 million in intraregional export receipts in 1973, approximately \$30 million represented petroleum exports to Peru and Chile,<sup>44</sup> which between them purchased about 50% of Ecuador's 1975 petroleum output.<sup>45</sup> Peru is currently exchanging natural gas for Ecuadorean crude. The oil bonanza, which sent petroleum revenues in 1973 soaring to a record \$700 million, three times that of annual export earnings prior to 1972,<sup>46</sup> threatens integration by making an autonomous foreign policy more attractive. Ecuadoreans seem more disposed to decry the aforementioned dysfunctions of "excessive commercialism" than they were before the oil boom. Consequently, while some local firms take advantage of Andean trade opportunities, it becomes increasingly difficult for Ecuador to make long-range integration commitments.<sup>47</sup>

Ecuador's new-found economic independence helps to explain its aggressive defense of trade privileges. In September of 1972, when the Chileans used nontariff barriers to limit imports of Ecuadorean refrigerators, wearing apparel and plywood, Francisco Rosales, the

then President of the Institute for Foreign Trade and Integration (ICEI) warned Chile that Ecuador would not permit "unilateral Chilean decisions to limit its rights in the Andean Pact." Ecuador has called attention to other discriminatory practices involving the issuance of sanitation certificates and import permits, failure to implement the CMXT as a preference margin for regional suppliers in price comparisons with non-Andean sources, foreign exchange allocations on the basis of import volume during the previous year and other administrative acts that hinder trade, payment clearances and violation of origin rules.<sup>48</sup>

Peru. Participation in trade liberalization has been as costly to Peru as it has been profitable to Colombia. Below is a table depicting the recent structure of Peruvian intraregional trade.

Peru's Intraregional Trade (1974)\*

Country	% of Peru's Exports	% of Peru's Imports	Chief export(s) to Peru	Balance of Trade (U.S. \$ in Millions)
Bolivia	10%	16%	Oil	-7
Colombia	30%	60%	Oil	-27
Chile	45%	12%	(Beef (Canned Fruit (Paper	+9
Ecuador	15%	12%	(Wire (Oil (Cacao	-21
Venezuela	Negligible	--	(Oil (Aluminum	-22
				<hr/> -66

\*Prepared from the text of a speech of Admiral Jorge Parodi  
FBIS, Lima, VI (59), March 26, 1975, p. J-1.

Peru's 1974 ANCOM trade deficit of \$66 million was due to heavy petroleum and beef imports. Of the two, petroleum is the biggest drag on Peru's regional trade balance. Peru is ANCOM's second leading oil importer and runs a deficit of 45,000 barrels a day.<sup>49</sup> Lima has been optimistic that the seven foreign oil companies (Occidental, Phillips, Getty, Union Oil, British Petroleum, Sun Oil, Arco and Amoco) prospecting in the Amazon would locate new oil reserves. The head of Occidental Petroleum, said in July of 1974 that Peru would soon be producing 200,000 barrels a day to become "one of the richest countries in Latin America."<sup>50</sup> But, the foreign countries have had little success so far. Occidental is only pumping 700 barrels per day. Petroperu, the largest Amazon producer, is pumping only 3,400 barrels a day. Such results make the above prediction seem a little grandiose. Peru is spending \$625 million on a pipeline to carry the oil from the jungle to the Pacific.<sup>51</sup> The present world steel shortage has delayed its completion until about August of 1976.<sup>52</sup> It is not yet clear if any new oil will flow through this new pipeline, despite the fact that Peru estimates that its annual oil production will increase in the 1975-78 period from about 4 million to nearly 62 million barrels.<sup>53</sup> Peru's biggest ANCOM

oil supplier is Ecuador, followed by Bolivia and Venezuela. Venezuela has agreed to sell Peru 20,000 barrels of crude a day in 1975 and 1976.<sup>54</sup>

Peru hopes to reduce its food deficit of \$700 million by spending \$300 million in 1975-76 to subsidize the production of wheat, rice, cooking oil and meat.<sup>55</sup>

The majority of Peru's intraregional exports are primary products, such as fishmeal, cotton, sugar and minerals. Peruvian nontraditional exports to ANCOM have increased from \$4 million in 1970 to \$44 million in 1974.<sup>56</sup> At present Peru accounts for about 36% of ANCOM's nontraditional trade.<sup>57</sup> Colombia and Ecuador are the subregion's best customers of Peruvian nontraditionals. Colombia's nontraditional purchases, which totalled \$8 million in 1973, included such items as copper wire rod and antimonial lead; Ecuador imports Peruvian cement, paper, copper bars and shapes. Bolivia imports such Peruvian nontraditional as cement and pharmaceuticals. Chile, besides importing cement, purchases acrylic fibers from Peru. At present Peruvian exports to Venezuela are negligible. However, Alejandro Tabini, President of the Peruvian Exporters Association has stated that in 1976 Venezuela will be purchasing a total of \$20 million of

Peruvian nontraditionals.<sup>58</sup> This would help finance Peru's spiraling imports of Venezuelan oil. Peru, which has long advocated Argentine membership in ANCOM, would also like to increase its trade with Argentina. In 1975, a large delegation of Peruvian business and government leaders journeyed to Buenos Aires to discuss expanding commercial ties. In June of 1974 Argentina sent a 150 man delegation led by Julio Brener of the Confederacion General Economica and Economic Minister Jose Gelbard to Lima, which established a \$50 million reciprocal credit line and negotiated an exchange of 75,000 tons of Peruvian sorghum for 2,000 barrels a day of Argentine crude petroleum.

Although Peru is cultivating new subregional markets, Lima has by no means adopted a commercialist integration policy. On the contrary, Peru, next to Venezuela, is the most devout developmentalist in the Andean Pact. There are several reasons for this. First, Peru has learned from the bitter experience, both in LAFTA and ANCOM, that trade liberalization, without a concomitant change in regional production functions, is detrimental to the relatively lesser developed bloc members. Second, the Peruvian development policy of structural transformation, which reduces the role of "market forces" and relies heavily on

import substitution, meshes well with the regional planning envisaged in Pact instruments such as the SPIDs. In a recent speech, the Chief of Peru's National Integration Office, Rear Admiral Jorge Parodi, said, that:

...the programming mechanism is the basic one in the agreement to attain the objectives of uniform, balanced growth in the subregion. Any delay in this matter involves a risk of turning our integration plan into a simple automatic liberalization of trade, which, obviously, was not the intention of the Revolutionary Government in signing the Cartagena Agreement.<sup>59</sup>

Despite the fact that Peru has faithfully implemented the tariff reductions required under progressive liberalization, it is evident from Admiral Parodi's remarks that if progress in trade liberalization is not matched by a concomitant advance in sectoral planning, Peru will no longer honor liberalization commitments. Only industrial programming can "make the aspirations of the countries of the subregion of balanced, uniform development feasible," Admiral Parodi says,<sup>60</sup> Peru has also voiced its concern that any delay in the application of the CMXT would undermine the margin in preference necessary for nontraditional trade creation.<sup>61</sup>

Venezuela. To say that Venezuela's entry into the Andean Pact was deliberate would be something of an understatement. Venezuela waited 4 years to join;

January 1, 1974 is the formal date of entry, and then it did so only after President Caldera received assurances that his country would not be exposed to "grave dangers, which might bring about a dislocation in its economy."<sup>62</sup> The most significant trade concession the Pact made to Venezuela concerned the number of products the country can except from annual automatic tariff cuts.

Decision 70, which specifies Venezuela's terms of entry, assigns ANCOM's most developed member 450 exceptions; only 150 fewer than Ecuador. Such preferential treatment in reverse jeopardizes the overall process of integration by undermining the avowed Pact goal of mutual reciprocity. Of the above mentioned exceptions, 200 are to revert to the trade liberalization process on December 31, 1979; 110 apply to Colombian imports; Venezuela can except 45 items from Peru and Chile. Moreover, Decision 70 awards 30 additional exceptions to Chile, Colombia, Peru applicable to Venezuelan imports. The expiration date for Venezuela's remaining 250 exceptions is the same as for Chile, Colombia and Peru--December 31, 1985.

The Consensus of Lima (i.e. Decision 70) requires that Venezuela eliminate, within 120 days of its formal entry, all tariff and nontariff barriers for products

on the first section of LAFTA's Common List, and on all Bolivian and Ecuadorean goods. Compliance with the latter requirement has already been felt by Venezuela's protectionistic-minded private sector. In September of 1974 textile workers in Caracas staged a 3 hour strike to protest the "flooding of the market" by Ecuadorean merchants.<sup>63</sup>

For those products subject to progressive liberalization, Venezuela was obliged to align its tariffs with those of Chile, Colombia and Peru within the same 120 day period after formal entry. Annual 10% tariff cuts are to begin December 31, 1975 so that by the end of 1980 all duties on products in this category will be eliminated. However it appears as if Venezuela is already defaulting on her trade liberalization commitments. In a recent statement on Bogota Radio Cadena Nacional, Emilio Urrea Delgado, President of FENALCO, the National Federation of Colombian Businessmen, said that he and President Lopez agreed that Venezuela had decided not to abide by the tariff reductions of the Pact.<sup>64</sup>

Under Decision 70 Venezuela was to initiate the CMXT process on December 31, 1973, and complete it in automatic linear steps no later than December 31, 1975. However, Venezuela has been instrumental in broaching

the question of CMXT exceptions in the Commission. Resolutions 32 and 33 recently issued by the Board allowed Venezuela to suspend the CMXT for 33 products that are not produced domestically until November 30, 1975.<sup>65</sup> Some of these items are produced in Chile, Ecuador and Peru. This Venezuelan deferral of the CMXT has had a direct effect on other Pact members. Resolution 35, issued in March, 1975, allows not only Venezuela but Colombia and Chile as well to waive the CMXT for such agricultural products as purebred cattle, sheep, goats and dry coconuts.<sup>66</sup> Venezuela has seen fit to imperil the CMXT "because others have not made decisions concerning this matter and agreement has not been reached concerning Sectoral Programs of Industrial Development."<sup>67</sup> Like Peru, Venezuela is making its compliance with integration commitments contingent upon progress in industrial programming, an area where Venezuela has strong developmental ambitions. The former President of the Commission, Venezuelan Reynaldo Figuerdo, once remarked that the true test of the Pact is the success in sectoral programs.<sup>68</sup>

Despite the fact that ANCOM accounts for only 1% of Venezuela's total trade, President Perez has precluded giving pact members a price break on

Venezuela's principal subregion export, petroleum.

In a recent news conference he announced that Venezuela would not deviate from OPEC pricing policy.<sup>69</sup>

In contrast, Chile and Colombia have proposed, in view of current world scarcities, that Pact members give each other preferential treatment in the supply of raw materials.<sup>70</sup>

Venezuelan enthusiasm for the Andean Group is being diluted--at least on a short-term basis--by its interest in other regional trade. Venezuela is vigorously expanding its commercial ties with the Caribbean, Central America and Mexico. Recently Venezuela agreed to offset its huge trade surplus with Mexico, caused by oil exports, by purchasing \$48 million in Mexican bentonite and baryte for its oil industry.<sup>71</sup> Venezuela is also discussing with Mexico the possibility of constructing an oil pipeline some 4,000 kilometers long from Lake Maracaibo to McAllen Texas, via Mexico.

### III. THE ANDEAN FOREIGN INVESTMENT CODE

#### Background

Decision 24, issued by the Commission on December 31, 1970, is "a common code on the treatment accorded foreign capital and, among other things, on trademarks, patents, licenses, and royalties, to which multinational enterprises are to be subject."<sup>72</sup> Because some observers view Decision 24 as an attempt to codify developmental nationalism, it may be that the AFIC is more a political statement of policy than an economic one.<sup>73</sup> A divestment formula coupled with capital and technology controls serve as its dual underpinning. These measures are designed to protect the economic sovereignty of the region by preventing foreign multinationals from achieving hegemony over the isolated ANCOM market. Moreover, Andeans believe that in the absence of institutional controls, investment will gravitate to the more developed members of the subregion and thus undercut the cherished Andean objective of "harmonious growth." Decision 24, therefore, is an important subregional mechanism for channelling foreign resources into lesser developed Pact members and integration programs that will facilitate balanced regional growth and development.

Apologists of Decision 24 say that it establishes reciprocal guarantees for both the foreign investor and

the subregion. First, it is suggested that by delineating the rights and obligations of the foreign investor, the AFIC mitigates the predisposition of nationalistic regimes to hold foreign business political hostage. Rafael Soto Alvarez, Venezuela's Superintendent of Foreign Investment said shortly after his country had ratified Decision 24, that; "Foreign investors before had unrestricted freedom to invest, but they didn't know when these conditions would change on them."<sup>74</sup> Second, it is claimed that by strengthening the negotiating capacity of the Pact members vis-a-vis foreign enterprises, Decision 24 insures that foreign investment will reinforce the developmental strategy of the Andean Group.

The strictures of the AFIC are predicated on two assumptions. First, that Decision 24, and not political and economic stability, is the sine qua non of a favorable investment climate. Second, that the potential attractiveness of a market of seventy million people outweighs any of the code's restrictions. Both seem to be rather "heroic" in nature. The Andean region suffers not only from a chronic political instability, but also lacks critical economic and social infrastructure. Moreover, millions of Andeans remain beyond the pale of a money economy. National economic integration

is a precondition of effective regional economic integration.

#### Divestment

The institutional framework of the AFIC rests on the differential treatment accorded national, mixed and foreign enterprises. These three categories are defined below.

National enterprises: Locally chartered companies which are more than 80% owned by national investors.

Mixed Enterprises: Companies in which no less than 51% but no more than 80% of its equity is owned by national investors.

Foreign enterprises: Companies which are less than 51% owned by national investors.

Both national and mixed enterprises enjoy the benefits of trade liberalization. However, goods produced by foreign enterprises are eligible for ANCOM's tariff reductions only under certain predetermined conditions.

#### Existing Foreign Enterprises

Any foreign enterprise chartered before June 30, 1971 can have duty-free access to the Andean market only if it signs a transformation contract within 3 years

of the date of enforcement of Decision 24; at which time no less than 15% of the equity of said enterprise must be owned by national investors. Article 28 of Decision 24 states:

The time period in which this transformation must be carried out may not exceed 15 years in Colombia, Chile, and Peru, and 20 years in Bolivia and Ecuador, from the date on which this instrument enters into force. Upon completion of two-thirds of the time period agreed for the transformation, there must be a participation of national investors in the capital of the said enterprises of no less than 45%.

#### Joint Ventures

Decision 47, issued in December 1971, allows a "foreign enterprise," with not less than 30% state participation, to qualify as a "mixed enterprise" indefinitely, "provided the state has determinative powers in company policy."

An example of such an enterprise is the West German-owned firm Bayer Industrial S.A., the first, and apparently, the only major foreign manufacturing investment in Peru since the 1968 coup. After protracted negotiations, in which Bayer was exempted from transferring

shares to the industrial community (General Law of Industries, 1970), the Peruvian government entered into a partnership with the firm. Under the present agreement, 30.1% of this "strategic industry" is owned by COFIDE and the Banco Industrial; Peruvian private investors own 9.5%; Bayer holds the remaining 60% equity. Peru has a veto over such decisions as the appointments of external auditors, the liquidation of the enterprise, contract modifications, royalties, licensing and the transfer of shares.

Article 34 states that "foreign enterprises, of whose production 80% or more goes into exports to the markets of third countries" like joint ventures, are not obligated to abide by the provisions of Decision 24. Nevertheless, these firms do not enjoy duty free access to the subregional market unless they comply with aforementioned AFIC restrictions.

#### New Foreign Enterprises

For foreign enterprises constituted in the subregion as of July 1, 1971, divestment of foreign equity is mandatory, whether or not liberalization benefits are desired. For Chile, Colombia, Peru and Venezuela the divestment schedule as outlined in the previous section remains in force with one additional stricture: no less than 30% of said enterprise must be in the hands of

national investors upon completion of one-third of the transformation period. (art. 30)

In keeping with ANCOM's policy of fomenting new industry in the lesser developed countries of the subregion, the 20-year divestment period in Bolivia and Ecuador for new foreign enterprises does not start until two years after production begins. Moreover, divestment proceeds at a more relaxed, less demanding pace to help these less-developed capital-short countries attract foreign investors. Article 30 of Decision 24 stipulates:

In the case of Bolivia and Ecuador, the progressive participation of national investors in the capital of the enterprise must be no less than 5% three years after production begins, no less than 10% upon completion of one-third and no less than 35% upon completion of two-thirds of the agreed period.

The divestment schedules discussed in this section apply primarily to foreign firms engaged in manufacturing because of special escape clauses in the code and Commission Decisions will be discussed in a subsequent section entitled "Special Regulations by Sectors."

Capital and Technology Controls

The anti-multinational tone of Decision 24 is especially evident in its opening chapter, which deals with, among other things, the regulation of foreign capital and technology. Foreign enterprises can re-export capital only when they sell their equity or liquidate; and then only in the amount of direct foreign investment plus reinvestment. (Art. 8) Such enterprises are allowed to remit annually no more than 14% of their direct foreign investment. (Art. 37) Any reinvestment in excess of 5% of the company's capital base must be authorized by a "competent national authority" and is subsequently treated as new foreign investment. (Art. 12 & 13) Limits of external indebtedness on foreign enterprises can be established. (Art. 14) Moreover, Pact countries are not encouraged to guarantee external credit transactions of foreign companies in which they do not participate. (Art. 15) The access of foreign investors to local capital is limited to short-term credits provided they have been approved by the Commission, ANCOM's supreme body. (Art. 17) The most significant feature of Chapter I is its attempt to regulate the relationship between a foreign subsidiary and its parent company. Interest rates on external credit contracts between the two "may not exceed by

more than three points the rate of interest of first class securities prevailing in the financial market of the country of origin of the currency in which the transaction is registered." (Art. 16) Contracts for the transfer of technology between the host and the subsidiary cannot contain the following:

- (1) Tie-in sales clause(s) that require licenses to purchase goods and additional technology from a specific source.
- (2) Clause(s) permitting licensor to fix sale prices.
- (3) Restrictions on the volume and structure of production.
- (4) Restrictions on the use of competing technologies.
- (5) Clause(s) providing the supplier with "purchase options."
- (6) Requirement that purchaser forfeit to the supplier rights of inventions or improvements derived from the transferred technology.
- (7) Clause(s) requiring royalties for unused patents.

Special Regulations by Sector

Extractive Industries. Article 40 of Decision 24 allows the member states, during the first ten years of the code's life, to grant concessions to foreign firms engaged in the "exploration and exploitation of minerals of any kind" provided the duration of the contracts does not exceed 20 years. The same article encourages state participation in such ventures and forbids depletion allowances. Nonetheless, foreign extractive firms, although not subject to divestment, must abide by the aforementioned capital and technology controls.

Service, Financial, Marketing and Media Enterprises.

Articles 41 through 43 close certain activities to foreign investment. No new foreign investment, except that which is absolutely necessary to maintain efficient operation of existing facilities is permitted in the public service of water, sewerage, electric power, illumination, garbage collection, sanitation, telecommunications and mail. Other areas off-limits to new direct foreign investment include insurance, commercial banking or financial institutions, internal transportation, publicity, the news media and any other type of enterprise devoted to the commercialization of any product. Other than public services, the existing foreign enterprises that fall within the purview of

the above must offer 80% of their equity for sale within 3 years of the AFIC's date of enforcement. Foreign banks which fail to comply forfeit the privilege of "receiving local deposits in current accounts, savings accounts, or time deposits." (Art. 42) Besides this transformation requirement, foreign enterprises mentioned in this section are subject to the capital and technology controls discussed earlier.

Article 44 allows the restrictions of Chapter III of the Code (Articles 40 to 43 inclusive) to be waived "when, in the opinion of the recipient country, special circumstances exist..." This loophole provides the member states with considerable flexibility in applying the AFIC and militates against a common Andean treatment of foreign capital and technology. Opponents say this lack of uniformity erodes the reciprocal guarantees provided for in Decision 24, because the door to economic blackmail is left ajar. They argue that Decision 24, by introducing uncertainty into the "ground rules" dampens capital formation, and exacerbates an already critical capital shortage that induces Pact members to engage in "bigger thy neighbor" policy.

Enforcement. It is noteworthy that although the purpose of Decision 24 is to establish a region-wide uniform investment code, no mechanism has been created

to implement and enforce its provisions. It is true that the code authorizes the Commission to tax foreign trade marks, determine patentable products, increase the remittance ceiling, and close certain sectors to foreign enterprise. However, these powers may be more apparent than real since none of the above actions can be taken in the face of a member state veto. The Board, the apolitical technical arm of ANCOM, the most suitable organ to enforce the code, is given no discretionary powers in this respect. Its charge to monitor the implementation of the AFIC is predicated on the individual states' willingness to keep the Board informed on the process thereof. (Art. 48)

De facto power to implement and enforce Decision 24 rests in the hands of member states. Article 2 of the code empowers the "competent national authority" to approve applications of foreign investors according to "development priorities of the recipient country." This "competent national authority" negotiates transformation contracts with foreign enterprises (Art. 6) and enforces their provisions (Art. 35), approves remittances (Art. 37), authorizes foreign credits and terms of technology transfer for foreign enterprises (Articles 16 and 18 respectively), centralizes statistical and accounting information on direct

foreign investment (Art. 6), reserves for national, public and private enterprise sectors of the economy (Art. 38), issues certificates of origin that grant access to the Pact's duty-free program, and invokes Article 44.

The code's specificity in the regulation of foreign investment is vitiated by the confederal nature of the enforcement apparatus. Consequently, rather than establish uniformity, Decision 24 allows the lowest common denominator in the treatment of foreign capital and technology to prevail. It also proliferates the already suffocating bureaucracies of the Andean states thus discouraging the foreign investor.

Bolivia. Bolivia's attitude toward Decision 24 is one of benign neglect. There are several reasons for this ambivalence. Bolivia favors the principle of a uniform subregional investment code because such a code would mitigate jugular competition among Pact signatures. Moreover, Bolivia's preferential treatment under the code gives it certain advantages in attracting foreign investment. Some Bolivians view the AFIC as the Pact's mechanism for channelling foreign capital and technology to the less developed countries of the subregion. Defenders of the AFIC say it is a necessary adjunct of Bolivian industrialization, which

cannot take place in the absence of prodigious foreign investment and/or an expanded market for Bolivian goods. Moreover, the flexibility of the code combined with the fact that Bolivia has no foreign investments affected by Article 28<sup>75</sup> (the provision that requires foreign firms chartered before July 1, 1971, particularly manufacturing firms, to divest over a 20 year period to minority ownership) makes potential benefits cheap in terms of opportunity costs. Yet many Bolivians, particularly those in the private sector, claim Decision 24 has made badly needed foreign capital harder to get. Consequently, the Bolivian government, while expressing full public support for Decision 24, has modified it in actual application.

The Bolivian Decree Law 9798 is a case in point. Promulgated on June 30, 1971 its preface states that because of conflicts between national legislation and Decision 24, certain adjustments are necessary in the latter. One such adjustment is the Bolivian practice of exempting from divestment all foreign enterprises that market their production only in Bolivia. A subsequent Decree Law 10045, issued December of the same year, grants special incentives and tax privileges to foreign and domestic industries engaged in "industry, mining, agriculture, cattle breeding, renewable natural

resources, construction, and tourism."<sup>76</sup> Only "basic and strategic" industries; metallurgy, iron, steel and petroleum are required to divest. They are given 25 years to do so. Decree Law 10045 also established the National Investment Institute, an adjunct of Bolivia's departments of ministry and commerce, and the entity responsible for implementing Decision 24. Recently Decree Law 11550 invoked Article 44 for banks and financial institutions "in an effort to increase Bolivia's capital base... and promote productive enterprises."<sup>77</sup> Foreign commercial banks can continue to receive local deposits. Bolivia has not yet invoked Article 44 for public utilities. In 1974, the Canadian-owned company Bolivian Power, which supplies La Paz with electricity, announced that it was selling out to the Bolivian government. Liquidation was brought on more by a dwindling profits and restrictive national regulations than by Decision 24.

It appears that Decision 24 has had little impact on foreign investment in Bolivia because most of that investment is concentrated in mining and petroleum; sectors subject to Article 44. Although the Bolivian government has never published statistics on foreign investment, the American Embassy in La Paz has made some "ball park" estimates. According to the Embassy's

rough calculations, direct foreign investment in Bolivia equals \$75 million.<sup>78</sup> Of this, \$27.5 million is in mining, of which slightly more than half is from the United States. A total of \$35 million has been invested in petroleum and mining exploration in the last few years, all but \$5 million by U.S. firms. The remaining \$12.5 million is divided between small industry, commerce, and land; \$4.5 million of this is U.S. direct foreign investment.<sup>79</sup> It has been estimated that only 1 out of 50 investment projects in Bolivia is related to subregional integration. Bolivia's ineptitude in attracting foreign investment is more the result of local political conditions, geographical location, and world market forces than Decision 24.

As mentioned earlier most recent foreign investment activity is in oil exploration. The Bolivian government plans to invest \$361 million in the hydrocarbon sector in 1974 and 1975.<sup>80</sup> Presently Union Oil, Marathon Oil, Total (a French company), Occidental Petroleum, Phillips, Amerada Hess, Amoco Oil, and Sun Oil have been granted concessions near Santa Cruz.<sup>81</sup> Others negotiating with YPFB, Bolivia's state-owned petroleum company, include Petrobras, Lone Star Gas, El Paso, Texaco and Matarani. Concession contracts are based on the Peruvian model. Foreign oil companies

are required to finance and carry out exploration of their one million hectare blocks. Oil is shared in kind between YPFB and the foreign company on a pre-fixed percentage basis; usually a 55/45 split in favor of YPFB.<sup>81</sup> This avoids complex tax and royalty calculations. Moreover, minimum work and expenditure requirements are stipulated in the contract. All oil and gas pipelines belong to YPFB which means foreign prospectors must pay pipeline fees. Besides Santa Cruz, Bolivia is exploring other areas at a cost of \$58 million, financed mostly by The Inter-American Development Bank (IDB).<sup>82</sup> Most of this high quality crude will be exported to Argentina, Peru and Brazil.

Because the AFIC has done little to stimulate capital formation, Bolivia increasingly looks to its chief trading partners, Argentina and Brazil, for equity capital. In connection with the oil development near Santa Cruz, Bolivia hopes to secure \$600 million for development of the Mutun iron ore deposits from Brazil in exchange for 240 million cubic feet of gas a day. Feasibility studies are proceeding on a proposed \$50 million rail link, to be financed by Brazil, between Cochabamba, Santa Cruz and southwest Brazil.<sup>84</sup> Brazil is also eager to set up a port on the Paraguay River at Puerto Saurez to facilitate mineral ore exports. Brazil

has proposed building a canal from Lake Caceres in Bolivia to Puerto Suarez.<sup>85</sup> Such Brazilian attempts to gain geopolitical advantage have had a strong "demonstration effect" on Argentina.

Argentina recently offered the landlocked nation of Bolivia special customs-free facilities at three port locations including Rosario and navigation rights on Argentine rivers.<sup>86</sup> Moreover, the Argentines, fearful that increased Bolivian shipments of natural gas might prejudice their gas imports of 150 million cubic feet a day, have been most conciliatory in negotiating price increases. Also, Argentine capital continues to flow into Bolivia. A binational enterprise formed between YPF, Argentina's state-owned oil company, and YPFB, called Sociedad Agroquimica Latino Americana was recently chartered. An Andean Development Corporation (ADC) loan of about \$5.5 million has already been approved for this firm. This binational enterprise will produce insecticides, 65% of which will be sold in ANCOM, 30% will be marketed in Argentina and the remaining 5% in Bolivia. Although YPF presently owns 60% of the company's equity it will divest to minority ownership within 10 years.<sup>87</sup> However, Hector Ormachea, former head of the Minister of Industry and Commerce, made a special trip to Argentina in November of 1972

to reassure prospective investors "that Decision 24 would be flexibly implemented," and even suggested that Bolivia might propose changes in the code.<sup>88</sup>

Chile. Under Salvador Allende, Chile was the Pact's most devout foreign investment reformist. All members but Chile applied Article 44.<sup>89</sup> So rigorous were Allende's nationalizations and regulations of new foreign investment that capital inflows virtually ceased and large net outflows occurred. Decision 24, in effect, had "no real impact on new foreign investment."<sup>90</sup>

The military government that took over in late 1973 has reversed the economic policies of the Allende administration which had been a firm supporter of the AFIC. Chilean officials now admit "we do not think objectively, that Decision 24 favors, as was its original conception, the accelerated growth of the region."<sup>91</sup> Chile's new economic minister, Raul Saez a graduate of the University of Chicago and former advisor to Venezuela's business group FEDECAMARAS, is the man most responsible for Chile's change of attitude. Saez, no friend of Decision 24, believes that foreign investment is indispensable for rapid economic growth. He feels that foreign investment should receive treatment no less favorable than local investment. Decree

Law 600, the new Chilean investment promulgated on July 13, 1974, attempts to attract maximum foreign investment by offering almost unconditional terms.

Decree Law 600 waives the strictures of the AFIC (divestment, a 14% remittance ceiling, limited access to domestic credit, sundry capital and technology controls, etc.) thereby virtually ignoring Decision 24 in Chile. Decision 24 was ratified in Chile on June 30, 1971, the AFIC deadline, by executive fiat under Decree Law 482. As in Colombia, this precipitated a legal controversy. The Chilean Comptroller ruled that since the application of Decision 24 entailed changes in national legislation, the AFIC had to be approved by Congress. The Chilean Constitution permits the President to override the objection of a Comptroller when the chief executive has the unanimous backing of his Cabinet. President Allende enjoyed this support and so ratified AFIC by decree.

The only mention the new Decree Law 600 makes concerning Decision 24 is in Article 19, which states that those foreign enterprises in Chile that seek ANCOM tariff concessions must adhere to Pact regulations "which are validly obligatory in Chile." Apparently this means that Chile will apply Decision 24 only to those manufacturing firms that export with-

in ANCOM. This practice of segregating national markets from ANCOM has already been adopted by Bolivia. Ecuador and Colombia have at times been sympathetic to the idea. Peru and Venezuela have adopted a tougher line. The latter threatened to expel Chile from the Pact; an unlikely event since it would greatly weaken ANCOM's negotiating leverage vis-a-vis the Big Three. Peru has threatened to discontinue tariff concessions to those Chilean firms which cannot "present proof that they are complying with Decision 24:"<sup>92</sup> (i.e., that they are selling off their equity to national investors as called for in the Code).

The other five members of the Pact have been reluctant to grant Chile the same de facto treatment as Bolivia, despite the claims of the former that it is equally an economic basket case and needs foreign capital desperately. Peruvian Minister of Industry and Tourism, Jimenez de Lucio, said Decree Law 600 was a "regression to outdated practices under which Andean countries tried to outbid each other in terms of advantages offered to foreign capital."<sup>93</sup> The concern that Chile would become a "cat among pigeons" lead to a resolution in the Commission Meeting of September, 1974, condemning Chile's Law 600 as a contravention of Decision 24. The Chilean delegation, annoyed that

it was singled out for castigation while the relaxed application of Decision 24 was condoned elsewhere, walked out of the Commission Meeting.

The settlement of the Pact's first major crisis took place the following month of November. Chile issued a new Decree Law 746, which recognized the validity of Allende's Decree 482, implementing Decision 24. Law 746 designates the Committee on Foreign Investment, created by Decree 600 to negotiate contracts with foreign investors, as the "competent national authority." The Commission reciprocated by instructing the Board to make a complete study of Decision 24 and its implementation, and prepare proposals for more uniform enforcement.<sup>94</sup> Concomitant to this formal review was an informal agreement among Pact members to revise Decision 24; especially the 14% remittance ceiling (Art. 37) that many businessmen say is "a definite brake on investment."<sup>95</sup> According to one analyst, modification of Article 37 is a foregone conclusion.<sup>96</sup>

Some observers have characterized the above settlement as a charade.<sup>97</sup> By leaving the application of the Code in the hands of the "competent national authority," the Andean Commission has allowed Chile to keep its Decree Law 600, in exchange for a face-saving gesture--Decree Law 746. Chile has paid perfunctory

homage to Decision 24 by invoking Article 44--the escape clause--for development and commercial banks in Decrees 748 and 818, respectively. Other sectors specified in Chapter III of Decision 24 will probably be exempted in the future.

The murky interface between Chilean investment policies and Decision 24 may have the same untoward impact on foreign investment in Chile as the uncertainty surrounding the Code's legal status had in Colombia. Some foreign investors regard Decree Law 600 as anti-historical, and therefore a likely target of some future reform-minded government. Some Chileans have already expressed their discontent with the economic policies of the present government.

The present Chilean newspaper, El Mercurio, recently complained that "those who thought new military rule would bring spare parts, new investment and price stability were very far from the truth."<sup>98</sup> Yet there is some evidence that Saez's open economy is attracting foreign investment.

Although foreign investment inflow to Chile totalled only \$4 million in 1974,<sup>99</sup> the Committee of Foreign Investment claims that about \$120 million in investment projects has been approved in the first five months of this year,<sup>100</sup> the biggest of which will

be:

<u>Company</u>	<u>Sector</u>	<u>Amount in Millions of U.S. Dollars*</u>
Ataka-Japan	Mining	60.0
Metallgesellschaft- West Germany	Mining	35.6
Gozocean-France	Manufacturing	7.5
Firestone-United States	Tires	7.4

\* Figures rounded off to nearest hundred thousand.

It was also announced that another \$266 million in investment projects were either presently being negotiated or pending approval. Most notable of these include two proposed petrochemical projects (of United States companies) totalling \$28 million; a \$16 million metallurgical investment by a U.S. firm; finance projects totalling about \$5 million by U.S. and Japanese firms; a \$3 million investment in chemicals by U.S. firms and a \$2 million printing plant project proposed by a Colombian firm.<sup>101</sup> It is also rumored that Brazil and Chile have agreed to a joint project to refine and market Chilean copper.<sup>102</sup>

Most of the new foreign investment Chile has reported is going into mining. Chile is especially interested in developing its El Abra copper fields which contain the world's largest known copper reserves; 1,500

million tons in a 3,000 foot diameter outcrop.<sup>103</sup>

It is estimated that within a few years El Abra could supply 300,000 fine tons a year, more than half of Chile's present production. The Committee for Foreign Investment has reported that it has received applications for about \$1.5 billion of investment in mining,<sup>104</sup> most of which is to be spent developing El Abra's copper fields.

If these figures are accurate, Chile will set an investment record this year, vindicating President Pinochet's supposition that "when rules of the game are known, capital will come of its own accord and no one will be able to stop it."<sup>105</sup> Total foreign investment in Chile during the 1964-73 period was about \$261 million.<sup>106</sup> Actual book value of foreign investment in Chile is \$440 million.<sup>107</sup> This figure is disaggregated below:

	<u>In Millions of U.S. Dollars</u>		
Total Foreign Investment	440		
U.S. Investment	150		
Mining and Smelting		15	
Petroleum		11	
Manufacturing		103	
Other		21	
Non-U.S. Investment	290		
W. Germany		160	
Japan		75	
United Kingdom		50	
Other		5	
	440	440	440

\*Prepared from statistics in Department of State Telegram, S 147, Santiago, p. 2.

Colombia. Nowhere has application of Decision 24 been more phlegmatic than in Colombia where legal setbacks delayed formal enactment of Decision 24 for more than 2 years. President Pastrana promulgated Decision 24, as he did the Cartagena Agreement, by Presidential Decree 1299 on June 30, 1971. In December of that year the Colombian Supreme Court ruled that the President had superceded his constitutional authority; thus, Decree 1299 and its subsequent regulatory law were "invalid." As a stop-gap measure the Colombian President issued Decree 1234 on July 18, 1972 aligning Colombia's requirement for foreign capital registration with that of Decision 24. It also designated The National Council of Economic and Social Policy as Colombia's "competent national authority." On April 14, 1973 Decision 24 and the Agreement of Cartagena were ratified by the Colombian Congress. President Pastrana was given extraordinary power to implement Decision 24. He issued forthwith Decree 1900, which incorporated the text of Decision 24 into national law.

An alternation of ANCOM's divestment process is an outgrowth of Colombia's constitutional imbroglio. Article 28 of the AFIC stipulates that unless a foreign enterprise existing in the subregion prior to June 30, 1971 sells 15% of its equity to national investors

within 3 years, said firm cannot "enjoy the advantages deriving from the duty-free program of the Cartagena Agreement." Because Decision 24 was not formally enacted in Colombia until September 15, 1973; foreign enterprises there subject to Article 28 were reluctant to meet the June 30, 1974 deadline. To resolve this dilemma the Board ruled last June that such firms, at any future time, could sign transformation contracts, begin divestment, and receive tariff privileges, "as long as they obtained a percentage of national ownership equal to that which was required at that time for firms which began divestment according to the AFIC schedule."<sup>108</sup> Thanks to Colombia, ANCOM's foreign manufacturing firms; which are actually the only enterprises effected by Article 28, have greater flexibility in meeting divestment rules. Despite the uncertainty surrounding divestment in Colombia, some foreign firms are proceeding according to the AFIC timetable. U.S. Polymer International, which makes plastics and synthetic textile products, has sold 17% of its equity in the last two years. Polymer hopes to divest to a minority position and become a mixed enterprise by the AFIC deadline of June 30, 1985. According to one analyst "the equity ownership considerations seem to take a back seat in Colombia to the stable political

climate, and a more developed physical and financial instructure which are available there."<sup>109</sup>

In December of 1973, Decree 2719 was promulgated exempting banks, commercial financial institutions and companies engaged in commercial marketing from Decision 24. (Art. 44) Another decree, 2788, was issued the same month waiving Decision 24 for extractive industries, even though this seems unnecessary in view of Article 407 of the AFIC. Although the latest decrees, issued this year, reverse "the spirit" of Decree 2719, they are still in line with Colombia's export-oriented national economic policy of outward-directed growth.

Decree No. 169, announced on January 31, 1975, regulates new direct foreign investment in internal marketing including tourist facilities. This Decree 169 specifies that:

The National Planning Department is authorized to approve new foreign investment in existing companies that market Colombian products, in the case of reinvestment of undistributed profits, when 40 percent of the company's sales are exports, or when the investment is for a purpose other than internal marketing. Foreign investment in new companies to market Colombian products can only be authorized for national companies (80% owned by national investors). Foreign investment in new or existing products may be approved if 40 percent of total sales are exports of Colombian products...New companies in this category are subject to the requirement of becoming mixed companies in accordance with Article 30 and 31 of the Code. Foreign investment in new or existing facilities offering food or lodging may be approved if the principle purpose is to

promote tourism, and provided there is at least 15 percent national participation...This decree does not affect in any way existing foreign investment in internal marketing operations, including tourist facilities, all of which were excepted from any disinvestment requirements by Decree No. 2719 of 1973.<sup>110</sup>

Decree 2295, issued February 24, 1975, creates a commission to negotiate the transformation of foreign banks. The commission is empowered to draft laws regulating foreign banks. Because Decree 2719, which excepted foreign banks and financial institutions from Decision 24, was promulgated with "extraordinary faculties" granted to the President by Congress, which expired December 31, 1973, "foreign banks cannot be legally obligated to disinvest unless the Congress passes another law authorizing such an obligation."<sup>111</sup> Consequently the government "hopes to persuade the affected institutions to divest themselves of at least 51 percent of their stock to Colombians, rather than force the issue with a law."<sup>112</sup> This optional conversion to a mixed enterprise, although admissible under Article 44, is a distinct mutation of Article 42 of Decision 24 which requires that foreign banks sell at least 80% of their equity (i.e. national enterprise) within 3 years of the Code's date of enforcement, and has lead to allegations that Colombia seeks to turn itself into the financial capital of the Andean Pact.<sup>113</sup>

The sectoral application of Decision 24 in Colombia seems to vary inversely with the level of foreign investment. This practice is not confined to Colombia but seems to pervade the subregion. In those areas where foreign investment is heaviest; manufacturing, banking and extractives, Colombia has either modified the divestment process or invoked Article 44. In the public service sector of electricity, gas and water, where foreign investment is negligible, Decision 24 is being fully implemented. The Bank of the Republic of Colombia has estimated that total foreign investment in Colombia is \$584 million;<sup>114</sup> This figure differs significantly from official U.S. government estimates (see Table 2). The Bank gives the following sector-by-sector breakdown.

Foreign Investment in Colombia at the end of 1974  
(In Millions of U.S. Dollars)

- 395 - Manufacturing Industries
- 93 - Finances, Insurance, Goods and Services
- 62 - Petroleum
- 14 - Mines and Smelters
- 11 - Commerce, Hotels and Restaurants
- 6 - Agriculture, Hunting, Forestry and Fishing
- 2 - Construction
- 1 - Electricity, Gas and Water

584 Total Foreign Investment

\*Prepared from data in Grupo Andina "Nuevas Inversiones Extranjeras En Paises Del Acuerdo De Cartagena;" No.44, Abril 1975, p. 9.

Despite Colombia's liberal interpretations of

Decision 24, she is self-righteous when it comes to the policies of others. Foreign Minister Lievano denounced Chile's new controversial investment law as being "incompatible with Decision 24."<sup>115</sup> In mid-1975, at the Third National Metallurgical Congress of Colombia, the Foreign Minister called Decision 24 "the most important mechanism of subregional integration." Such verbal support has yet to be vindicated by Colombia's implementation of Decision 24. Yet some have been taken in by the government's rhetoric. A June editorial in El Tiempo complained that "Colombia alone has been steadfast in its support of Decision 24."<sup>116</sup> It went on to suggest that proposed changes in Decision 24 precipitated by the Chilean Law 600 has created a new climate of uncertainty that would be pernicious to investment; this despite the fact that Colombia entered an informal agreement "to perfect AFIC" as part of the settlement of the Chilean investment question. Colombia's newfound reformist attitude toward foreign investment may be a diversionary tactic to delay the implementation of industrial programming, which is contrary to her overall "commercialist" objectives.

It is especially difficult to gauge the Code's impact on foreign investment in Colombia because the climate of uncertainty caused by its legal setbacks

may have been more intimidating to the foreign investor than the Decision 24 itself. This is the opinion of the Colombian National Planning Department which studied foreign investment in Colombia in September of last year. The study points out that in 1972, when controversy over the Code was greatest, foreign investment inflow dropped to \$17 million, excluding petroleum; less than half of 1971's total. But once the legal status of Decision 24 was clarified, foreign investment in Colombia picked up. Investment projects approved in 1973 totalled \$62 million, Colombia's best investment year since 1967.<sup>117</sup> Of this sum, 69% went into food, metalworking and finance, 23% was invested in chemicals and the remaining 8% was sunk into export firms.<sup>118</sup> In 1974 El Consejo Nacional de Politica Economica y Social approved \$75 million in investment applications, a new Colombian record.<sup>119</sup> However, a Colombian business group, La Federacion Nacional de Comerciantes (FENALCO) disputes the government's figures. FENALCO estimates that foreign investment has actually fallen in Colombia from \$111 million in 1970 to \$24 million in 1974.<sup>120</sup> A possible explanation for this discrepancy is segregation in Colombia's official data of petroleum investment from those of the rest of the economy, presumably because of the massive

disinvestment in the petroleum sector; \$44 million in the years from 1970 to 1973 (See Table 2). Capital outflow in this sector has been induced by Colombia's domestic oil policy and the lack of new oil reserves, and not by Decision 24. As of October of 1974, the domestic price of crude was only \$2.34 per barrel.<sup>121</sup> This artificially low price has discouraged exploration efforts, which have not been very fruitful this decade. Colombia has a low success ratio; for every one producer 20 dry wells are drilled.<sup>122</sup> Consequently, Colombia's oil production has declined from a peak of 220,000 barrels a day to 185,400 in 1973.<sup>123</sup> The Government of Colombia has compounded the disincentives by pursuing a nationalistic oil policy. In November, 1974, oil concessions were abolished.<sup>124</sup> Oil companies can still prospect but exploitation is done in partnership with the state; which enjoys 60% ownership. A 20% royalty is paid to the state and profit is shared on a 50/50 basis.<sup>125</sup> All this has convinced foreign oil companies such as Texaco, Chevron, Intercol, Superior, British Petroleum, Continental, Shell and Aquitaine to reduce the scale of their operations in Colombia drastically. Foreign disinvestment also appears to be taking place in gold and nickel mining.

Ecuador. Ecuador has been just as liberal in its interpretation of Decision 24 as Bolivia. Supreme Decree 974, issued June 30, 1971, prefactorily ratified the AFIC and designated a "competent national authority." A subsequent decree, 1029, promulgated one month later, invoked Article 44 for the "basic product sector, the public service sector, the insurance sector, commercial banking and other financial institutions, as well as domestic transportation and public companies, commercial broadcasting stations, T.V. channels, newspaper, periodicals, and those firms engaged in domestic marketing of products of all kinds."<sup>126</sup> Recently the Ecuadorean government announced it planned to remove banking insurance, construction and retailing from the Article 44 exemption, but apparently, this has not yet been officially implemented. Ecuador has generally not required its few foreign firms subject to Article 28 of Decision 24 to sell 15% of their equity to national investors by June 30, 1974 because Quito "won't accept less favorable treatment than others,"<sup>127</sup> an obvious reference to the Colombian situation already discussed. Moreover, Ecuador's freely convertible exchange system makes the 14% profit remittance ceiling (Art. 37) easy to circumvent.

Despite Ecuador's flexible application of Decision

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24, many Ecuadoreans believe the AFIC is having an untoward impact on foreign investment. The Ecuadorean private sector has called the code "counter-productive," and proposed revisions in Decision 24 that were adopted in mid-1975 by the Andean Chamber of Commerce.<sup>128</sup> Even government leaders have warned that "foreign investment is a valuable component of integration that must be encouraged and protected." It is not possible to estimate what the level of foreign investment in Ecuador would be in the absence of Decision 24, because the formation of ANCOM coincided with a prodigious upturn in the Ecuadorean economy. In recent years Ecuador has experienced a 33% increase in GNP due to its oil boom. Most of Ecuador's foreign investment is in the petroleum sector. A Texaco-Gulf consortium, which reportedly invested about \$200 million in the 1972-73 period alone is Ecuador's biggest foreign investor. Other foreign oil companies operating in Ecuador include OKC Petroleum International, YPF of Argentina, KOPEX of Poland and Minas y Petroles, a consortium made up of Aminoil, Amerada Hess Exploration, Hamilton Brothers Oil and Kirby Petroleum of Ecuador. Originally scheduled to renegotiate 25% of its equity in 1977, Ecuador prematurely acquired this portion of the Texaco-Gulf operation in mid-1974 after OPEC re-

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commended that Ecuador seek immediate participation in its domestic oil production. Ecuador has repeatedly raised the income taxes (the present rate is 49.95%) and royalties of the American consortium. At present Texaco-Gulf pays Ecuador \$8.5 for every barrel of oil it exports.<sup>129</sup>

A recent export slump has tempered Ecuadorean nationalism. For the first time since 1972 Ecuador has suffered a trade deficit amounting to \$111 million in the first four months of 1975; a budget imbalance of \$100 million since early July; and international reserves have dropped 50% in the last year to \$200 million.<sup>130</sup> When Ecuador's Oil Minister Julio Jarrin threatened Texaco-Gulf with a "rapid acquisition of controlling interest" last December he was summarily dismissed.<sup>131</sup> The American consortium has retained majority ownership of their operations until 1985; Ecuador remains a cautious reformist in the area of foreign investment.<sup>132</sup>

The departure of Jarrin was a setback for OPEC. The former Oil Minister was an aggressive supporter of this organization; he once accused President Ford of making "imperialistic threats" against OPEC. His removal cleared the way this July for an oil price reduction of 43¢ per barrel, "the first major crack in

the OPEC price structure."<sup>133</sup> By deviating from the price policies of OPEC, an organization from which it has reaped substantial temporal gains, Ecuador has cast doubt upon the credibility of its ANCOM commitments. So far, its support for integration seems to have been primarily ideological and political rather than economic.

Peru. Peru's interpretation and application of Decision 24 is the strictest in ANCOM. Indeed, Peru played a pivotal role in the formulation of the AFIC and consequently influenced the basic tenets of Decision 24. Divestment to a minority position and tighter capital and technology controls on foreign enterprise dovetail with Peru's national legislation, which in many ways is more rigorous than the Code. For example, Peru requires that all foreign enterprises, except extractives for which Article 44 has been invoked, and not just new companies set up as of July 1, 1971, or enterprises operating in the subregion before that date which desire ANCOM tariff concessions, divest to minority ownership. Decree Law 18999 establishes the industrial community, which is an association of workers of any given enterprise, as the principle mechanism by which national ownership is accomplished.<sup>134</sup>

If, within 30 days of a divestment deadline (Articles 28 & 30), at least 50% of the equity has not been transferred, the enterprise must extend a credit line for the purchase of the balance of the shares to be divested; the credit is amortized from future community profits. Peruvian Decree Law 18384 stipulates that eventually 50% of a company's equity must be transferred to the industrial community. The Peruvian treatment accorded foreign enterprises in public services, financial marketing and media fields furnishes another example that Lima views Decision 24 as a "minimum standard" (Decree 18900) beyond which harsher strictures may be imposed. Decree 19043, issued November 25, 1971 prohibited new foreign investment in commercial banking and required that foreign banks transfer 80% of their equity within 60 days, and not 3 years as stipulated by Article 42 of the AFIC. In addition, Peru "is probably the country which most closely adheres to such regulations which control the amounts of profits which may be transferred abroad, the payment of royalties and license fees to foreign firms, the terms of contracts concerning licenses and the transfer of technology, the participation of local investors, the reinvestment of capital, and in general provides a very closely controlled environment for foreign in-

vestors."<sup>135</sup> Although not as vehement in its criticism of Chile as Venezuela, the Peruvian government has emphasized the transcendental importance of Decision 24 in the success of the integration process. Admiral Parodi, the head of Peru's National Integration office, has said that without uniform application of the 14% limit on profit repatriation, capital will move to those countries where profit repatriation is the highest.<sup>136</sup> Another senior Peruvian official said that Decree Law 600 "puts the whole structure of the Cartagena Agreement in a delicate situation."<sup>137</sup> Apparently any watering-down of Decision 24, like the continued suspension of industrial programming, will jeopardize Peruvian membership in the Pact.

Peru's developmental nationalism, as expressed in national legislation and rigorous application of Decision 24, has had an untoward impact on foreign investment, especially in the manufacturing and the private sector. Despite official assurances that the private sector still has a role to play in Peru's social economy, the government has initiated a new type of enterprise called "social property" which will enjoy purchase, credit, finance and technology advantages over privately-owned firms, and will compete directly with them. Moreover, because administrative efficiency

has not grown in step with the increase in government controls over private enterprise,<sup>138</sup> many prospective investors, both national and foreign, feel they might become "bureaucratic hostages." Consequently, "private investment has not revived at all, in spite of the considerable incentives offered under the 1970 industrial law and the evident desire of the government for private enterprise to play its part within the new system."<sup>139</sup> Private investment barely covers replacement costs, and private savings are at a nadir. In such circumstances, Peru's fear that ratification of Decision 46 would induce capital flight seems justified.

Despite the fact that public investment is the motive force in the Peruvian economy, some foreign investors have showed a willingness to adapt to a controlled environment. Chrysler met its fade-out deadline of June 30, 1974 by selling 17% of the company to two Peruvians, who are the principal investors in Maraveco S.A., a large local metal fabricator and major supplier of Chrysler. Some manufacturing firms have either initiated or expanded their operations. They include Bayer Industrial S.A. of West Germany, Massey-Ferguson of Canada and the British-owned Perkins-Volvo (these automotive investments will be discussed in the industrial programming section). The fastest growing portion of the manufacturing sector is electrical

appliance production.<sup>140</sup> The private sector has enthusiastically supported consumer durables and export-oriented manufacturing firms. Nevertheless foreign capital inflow to Peru, both direct and loan capital, from February 1972 to March 1974 was a disappointing \$556 million.<sup>141</sup> Peru believes foreign investment will increase in the wake of the recent settlement which resulted in the payment of compensation to such U.S. firms as the International Petroleum Company, Cerro de Pasco, and W.D. Grace for properties nationalized by the military government. This view has been partially vindicated. Southern Peru Copper Company recently arranged a loan of \$404 million from a 54 bank consortium led by Chase Manhattan.<sup>142</sup> The planning Institute estimates that for the 1974-76 period that a total of \$3.4 billion in projects will be approved of which more than \$2.0 billion will come from abroad.<sup>143</sup>

The bulk of new foreign investment in Peru since the application of Decision 24 has been in minerals and extractive industries, which are regulated separately, generally in the form of a contract with the state.<sup>144</sup> The Plan Inca, devised by President Velasco, proposes to modify the 25-year oil exploration contracts and nationalize remaining foreign-owned mining operations. Besides the prodigious foreign investment in petroleum

exploration and pipeline construction (e.g., Occidental Petroleum plans to invest \$340 million in the 1975-76 period alone),<sup>145</sup> foreign capital continues to flow into the mining sector. The U.S. firm Southern Peru Copper Corporation is spending \$180 million in the preliminary development of the Cuajone mine. The total cost of this huge copper project will be over \$600 million; most of the financing is to come from the Export-Import Bank.<sup>146</sup> The oxide and sulphide deposits of Cerro Verde and Santa Rosa in southern Peru have attracted foreign attention. It is estimated that some 67 million tons of oxide reserves are located near Cerro Verde; \$100 million has already been invested. Santa Rosa has one of the world's largest sulphide reserves; 1,172 million tons.<sup>147</sup> Placer of Vancouver has offered to build a \$500 million processing plant at Santa Rosa.<sup>148</sup> Mineroperu, with the help of a team of Parsons-Jurden consulting engineers, hopes to develop a new electrowinning process and produce 30,000 tons of refined copper per year. Peru is working hard to develop its Bayovar phosphate deposits on its northern coast. Dow-Mitsui, a U.S.-Japanese consortium, has made a \$900 million offer to develop Tintaya's copper in the southern Andes and the Bayovar phosphates. Dow-Mitsui wants to process Tintaya's oxides at Cerro

Verde's electrowinning plant supplied by sulphuric acid from Bayovar.<sup>149</sup> Peru hopes that it can match its increase in mining output with a higher degree of mineral processing. Lima is planning to build a second steel mill at Chimbote at a cost of about \$700 million. The government estimates that by 1981 steel production will exceed 2 million tons annually.<sup>150</sup> Peru's strategy for petroleum self-sufficiency includes not only quadrupling oil reserves but increasing refining capabilities. Peru plans to shortly invest \$27 million in the petrochemical industry whether or not ANCOM reaches agreement on a petrochemical SPID.<sup>151</sup> A West German firm will install an \$11 million plant at Talara to produce sulphuric acid, acetone and isopropyl alcohol for Petroperu.<sup>152</sup> Unlike Venezuela, however, which has the necessary capital, Peru cannot increase its value-added output of petroleum and metallurgy, or significantly expand their production, without huge injections of foreign capital. Ironically, Peru may be even more dependent on foreign financing to achieve its goal of self-reliant industrialism, than it presently is as a raw materials supplier. This will be especially true if "big oil" is not discovered in the Amazon basin.

Venezuela. The effective date for application

of Decision 24 in Venezuela is January 1, 1974. However, April 1, 1974 is the point of departure for divestment; Decision 70 provides that Venezuela has 120 days to implement Decision 24. Within 3 years of May 1, 1974, those foreign enterprises subject to Articles 28 and 30 that seek liberalization benefits must have signed transformation contracts with the Superintendency of Foreign Investment, Venezuela's competent national authority (Law 63), and have sold no less than 15% of their equity to national investors. Decision 70 stipulates that by June 30, 1985, said foreign enterprises must have divested to minority ownership of 49% giving Venezuela a 12 1/2 year divestment period; as opposed to 15 years for Chile, Colombia and Peru.

Venezuela, whose foreign investment policy has traditionally been moderate, has surprised many observers by her vigorous application of Decision 24. Law 62, issued April 29, 1974, requires that foreign ownership in the sensitive industries of internal commerce, electricity, radio, television, publications in Spanish, domestic transportation, professional consultation and services must be reduced to 20% by May 1, 1977; in accord with Articles 42 and 43 of the AFIC. Venezuela has invoked Article 44 for extractives

and foreign banks and financial institutions. For both this reprieve was short-lived. Venezuela has nationalized the steel industry; U.S. steel was paid \$84 million for its holdings and Bethlehem Steel received about \$18 million for its equity.<sup>153</sup> The nationalization of the petroleum sector is already under way, and recently Foreign Minister Hector Hurtado announced that foreign participation in "financing companies will be limited to 20%."<sup>154</sup> Venezuela has emerged as a firm supporter of Decision 24. In the recent Pact crisis over Decree Law 600, Venezuela accused Chile of playing into the hands of foreign multinationals and said the remaining five members could "go it alone."<sup>155</sup>

In his speech to Congress in March of this year, President Perez said Decision 24 was important because it allowed the subregion to create a defensive front against the bondage and dependency implicit in foreign investments.<sup>156</sup> This is not to suggest that Venezuela, like other Pact members, is not adapting Decision 24 to prevailing economic realities. Rafael Soto, the Superintendent of Foreign Investment, has said that Decision 24 is being implemented by means of persuasion and not imposition.<sup>157</sup> Venezuela deferred the July 1, 1974 deadline for the registration of all foreign investment

to October 29, 1974 by Decree 216.<sup>158</sup> Other conciliatory gestures include eliminating registration requirements for certain types of securities; public debt, mortgage bonds, finance company bonds, time deposit certificates, commercial bonds and bonds issued by the ADC, and authorizing the transfer of shares, participations and rights among foreign companies that have participation and rights in other foreign countries. Superintendent Soto calls this Venezuela's "Open Door Policy." Perhaps the most important modification Venezuela has made to Decision 24 to date is the authorization to foreign enterprises that install or move their operations to the country's interior for 5 years, to reinvest all their earnings; and not just 5% as specified by the AFIC. This is in keeping with President Perez' promise to "redirect foreign investment toward sectors of the economy which currently are depressed or backwards and where the technology which we do not possess can be applied."<sup>159</sup>

If Venezuela's oil reserves are insufficient to meet the country's long-range development goals, Venezuela may once again welcome foreign investment, especially in the high-priority areas such as agriculture, petrochemicals, steel, aluminum, machine manufacturing and shipbuilding. Nevertheless, foreign investors "will

have to accept and understand the rules of the game formulated by Venezuela and will have to share the burdens and fulfill national development aims."<sup>160</sup>

Venezuela's newfound "prudent audacity" toward foreign investment is more a function of world market conditions, than ideological commitment to Decision 24. The quadrupling of oil prices in the last three years has boosted Venezuela's international reserves to more than \$8 billion, mitigating its dependence on foreign investment. Venezuela has created a National Development Fund, with an initial capital endowment of \$3.5 billion,<sup>161</sup> to finance Venezuela's ambitious development projects. Venezuela contemplates large-scale development of the Orinoco oil belt, thought to contain more reserves than the Maracaibo region. In the wake of the nationalization of the iron-ore industry, Venezuela has announced that the export of the unprocessed iron ore will be eventually banned,<sup>162</sup> because of expanding national steel production capabilities. At present 24 companies, most of them European, are bidding on a \$1.5 billion project to expand the Siderurgica del Orinoco facilities to increase steel production by 400%.<sup>163</sup> Venezuela, looking beyond the nationalization of the oil industry, is taking steps to reduce its dependence on the transport and marketing capacities

of multinational oil companies. Venezuela recently purchased a fleet of 25-60,000 ton tankers and looks forward to the day when the nation will have its own ship-building industry.<sup>164</sup> Caracas also hopes to increase Venezuela's present aluminum production from 50,000 tons to 280,000 metric tons a year by the end of 1977; two-thirds of which will be processed locally.<sup>165</sup> State participation in the production of aluminum has increased from 20% to 85% this year.

Venezuela aims at something more than self-sufficiency. The dramatic improvement in Venezuela's economic situation has changed this country's status from "developing" to "middle-income," Venezuela's per capita GNP is about \$2,300. Some of Venezuela's neighbors are convinced that Caracas has embarked on an aggressive policy of economic expansionism. Dr. Eric Williams, President of Trinidad and Tabago, believes that Venezuela's belated recognition of her Caribbean identity is due to a once latent desire to establish hegemony there. Not only is Venezuela providing lavish development assistance to Caribbean states (Guyana recently received an interest-free loan of \$17 million from Caracas,<sup>166</sup>), but President Williams views Venezuela's projected aluminum development as a calculated attack on CARICOM's planned aluminum

smelter at Carico.<sup>167</sup> Nor are Venezuelan aspirations by any means limited to aluminum, states Dr. Williams:

If Venezuela were ever to develop a policy designed specifically as an attack on Trinidad as an oil competitor and to supplant Trinidad oil in CARICOM that policy would not differ materially from agreements already entered into between Venezuela and other countries and if Trinidad and Tobago's CARICOM colleagues and potential colleagues were ever to decide on a policy to erode CARICOM, as the first step towards its destruction their policy would also not differ materially from the agreements entered into.<sup>168</sup>

Venezuela is devoting considerable attention to Central America as well. Besides organizing a Caribbean fleet, whose signatories include most of the major Caribbean and Central American states with the exception of Guatemala, Honduras and El Salvador, Venezuela has agreed to finance 70% of the cost of Central America's international coffee union.<sup>169</sup> Indeed, it appears as if Venezuela wants to wrest Central America from the tutelage of the United States and place it under the protective umbrella of Caracas.<sup>170</sup> Not only is Venezuela engaged in building oil refineries and upgrading port facilities, but at a recent meeting at Puerto Ordaz, Venezuela offered to underwrite part of Central America's development. To compensate Central America for soaring oil prices, Venezuela has agreed to allocate to the Central Banks of these states that money in excess of \$6 a barrel spent on a fixed volume

of petroleum imports from Venezuela.<sup>171</sup> Venezuela has, however, attached strings to this generous offer that would cut Central America's oil bill in half. Caracas will supervise the expenditure of the repatriated capital. This is a limitation on the sovereignty of the beneficiaries. Venezuela has not made a similar proposal to ANCOM because it believes that Pact members are adverse to so compromise their economic sovereignty.

Venezuela may be seeking continental, and not just regional leadership. By supplanting Brazil as the developer of Colombia's El Carrejon coal fields, Venezuela may be able to outstrip Brazil in steel production before the end of the century. Moreover, Caracas has been a prime-mover in SELA; (Sistema Economico de Latinamerica), the proposed economic organization of Latin American and Caribbean states that would work for a unified policy by identifying their purposes and aims in a dialogue with the United States [in the Organization of American States (OAS)].<sup>172</sup> This effort to become the new leader of Pan American nationalism has antagonized some Latin American states. Some Peruvians regard Venezuela as a "Johnny come later-ly." At the recent Ayacucho conference former President Velasco said, after a nationalistic speech by President Perez; "We seem to be hearing the voice of

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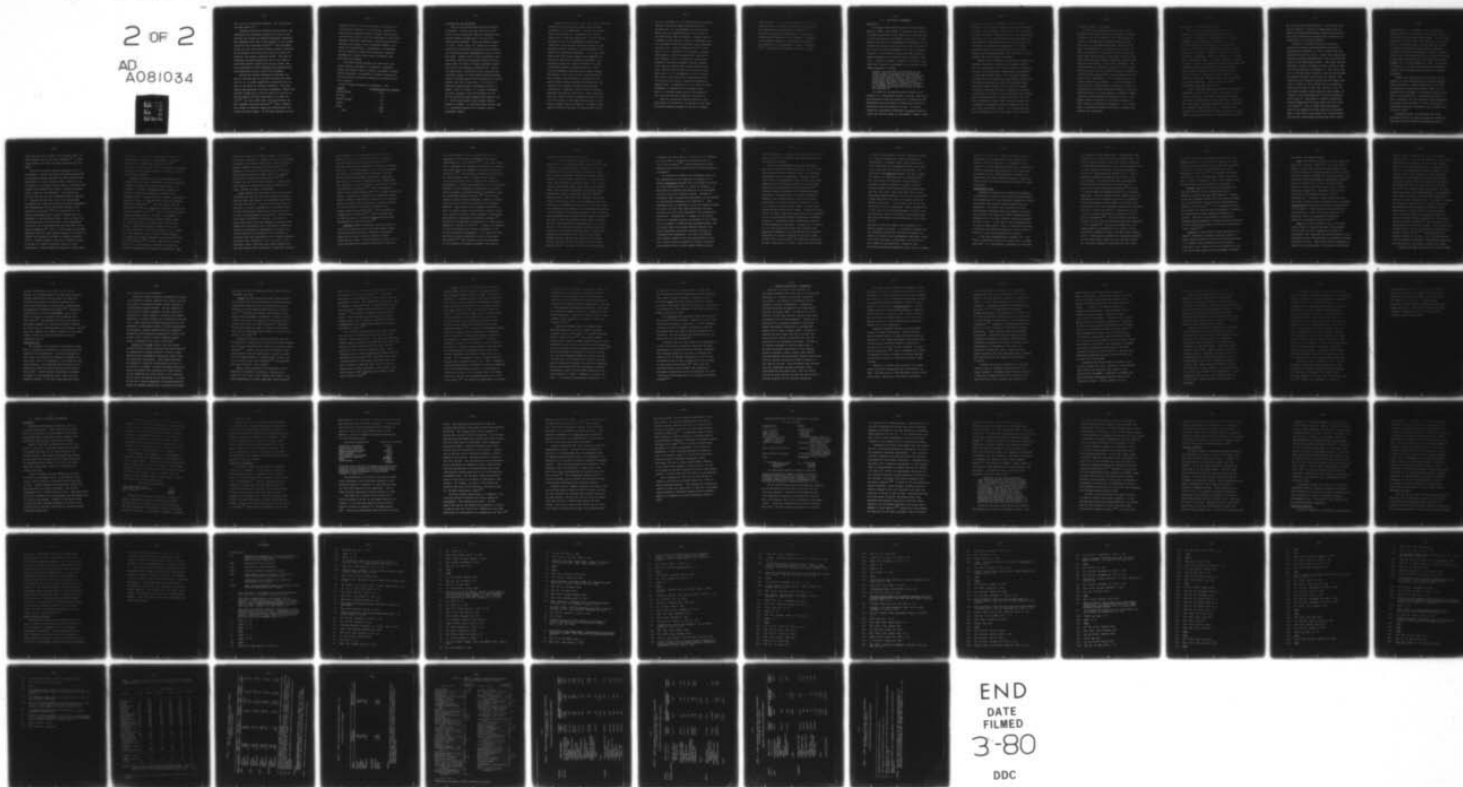
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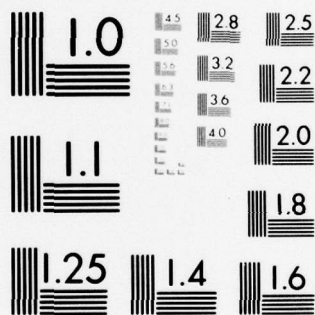
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Peru, but it is Venezuela speaking. We really share the same ideas."<sup>173</sup>

Recently Venezuela's powerful private sector has complained that Venezuela squanders too much of its precious oil revenue on foreign assistance; Venezuela has earmarked about 50% of the increase in oil revenue since 1972 for investment abroad.<sup>174</sup> The government points out that this capital outflow reduces inflationary pressures; which have been running at about 18% annually, and assures financial return. The drop in Venezuelan petroleum production due to the slump in world-wide demand, coupled with popular unrest, may limit Venezuela's dollar diplomacy and jeopardize her self-appointed role as a third world spokesman.

Because the present Venezuelan investment climate is effected more by national policies than Decision 24, it is almost impossible to determine the impact of the latter on foreign investment. The Venezuelan Superintendent of Foreign Investment, Rafael Soto recently stated that a total of about \$2.5 million in foreign capital had been registered as of March 30, 1975.<sup>175</sup> Mr. Soto noted that 3,636 applications for new investment has been received.<sup>176</sup> Also a substantial number of external credit and technological contracts have been signed. It has been reported that Dow

Chemical plans to set up operations in Venezuela once the petroleum industry is nationalized. Apparently many foreign companies, despite Caracas' nationalistic proclivities, believe that the advantages of Venezuela's abundant industrial feedstocks, highly developed infrastructure and access to the subregional market, outweigh the disadvantages. Consequently, if agreement can be reached on industrial programming, Venezuela probably will attract more foreign investment than any other Pact member.

The United States accounts for about 62% of all direct foreign investment in Venezuela. Venezuela enjoys the highest level of foreign investment in ANCOM. Direct investment in Venezuela by country according to the most recent statistics released by the Central Bank is as follows:

Direct Foreign Investment in Venezuela - 1972

<u>Country</u>	<u>In Millions of U.S. Dollars</u>
United States	2,079
Holland	321
United Kingdom	259
Canada	172
Other	<u>518</u>
Total	3,350

Decision 24 - An Evaluation

What effect has Decision 24 had on foreign investment? Despite the fact that this is the question most frequently asked in connection with Andean economic integration it has yet to be definitively answered. There are several reasons for this. First, there is a dearth of reliable statistical information; neither the Pact members nor the Board publish comprehensive foreign investment data. Second, even if such information were available, there is no empirical method for estimating what the level of foreign investment would have been in the absence of Decision 24. Third, the application of Decision 24 has coincided with a dramatic change in world market conditions whose impact on foreign capital and technology is probably greater than that of the AFIC. In an effort to indirectly gauge foreign investment activity in ANCOM, a chart of direct U.S. foreign investment in Chile, Colombia, Peru and Venezuela for the 1970-73 period has been prepared (See Tables 2 and 3). The United States is the largest foreign investor in AMCOM. It therefore seems logical that U.S. investment behavior will reflect overall investment trends.

Examining Tables 2 and 3 (pp. 164 & 165) reveal some interesting generalizations about recent foreign investment in the Andean Pact. Bolivia and Ecuador, where considerable U.S. investment has recently taken place in the petroleum sector, are not listed and much of the U.S. investment in extractives industries in the various countries appears in the amorphous "Other" category to avoid divulging the identity of individual companies. It is clear that most of the new foreign capital and technology is going into sectors not covered by the AFIC. Surprisingly enough Peru, where Decision 24 is most rigorously enforced, attracted more U.S. direct foreign investment than any other country listed; \$99 million. But of this total, only \$10 million was invested in manufacturing; actually the only sector significantly regulated by Decision 24; the remainder was invested in mining and petroleum exploration. Venezuela, which did not officially implement Decision 24 until May 1, 1974, attracted more U.S. direct foreign investment during the 1970-73, \$192 million, to the manufacturing sector than Chile, Colombia and Peru combined. Colombia, which applies leniently Decision 24 received \$99 million

in U.S. investment for its manufacturing activities. Because extractives remain beyond the pale of Decision 24, U.S. disinvestment in the petroleum sector can be interpreted more as the result of national policy than of the AFIC. Another item to consider is that the west coast of South America is not regarded by American business a high investment priority area. Table 2 shows that the 1973 book value of U.S. investments in the Andean countries listed does not differ significantly from that of 1967 (shown in Table 3), except for Chile where Allende's Draconian investment policies induced a net capital outflow that exceeded \$200 million. This contrasts sharply with the increases in the book value of U.S. investments of \$1,871 million, \$885 million and \$390 million experienced during the same period in Brazil, Mexico and Argentina, respectively. It appears as if U.S. direct foreign investment is tapering off on the west coast, while to a limited extent capital and technology from Japan and Western Europe are replacing it.

From the country-by-country analysis of the application of Decision 24, it should be clear that no general Andean agreement on foreign investment

policy exists. Pact members, despite the fact that they initialled Decision 24 five years ago, have not yet cooperated with the Board in drafting the necessary implementing regulations. At the recent Fourth Annual Convention of the Chambers of Commerce of the Andean countries, a resolution was passed that called for a "fundamental revision of Decision 24."<sup>177</sup> This could be a portent of things to come.

#### IV. INDUSTRIAL PROGRAMMING

##### Background

The Andean Common Market sprouted in the organic decay of LAFTA. The primacy of industrial programming in Andean integration is the function of both subregional political factors and economic conditions. By harnessing the forces of developmental nationalism, it has become a "political rallying point for the rejection of all forms of external dependence."<sup>178</sup> As an economic strategy, it facilitates reciprocity among nations of great heterogeneity by altering their production functions. Germanico Salgado, a member of the Board, suggests that industrial programming is a reaction to the Andean experience in LAFTA:

(ANCOM) concluded that the mechanism of open market access facilitated the concentration of activities in the most powerful [production] centers and could not build a stable integration society through a scheme that accentuated disparities and created growing tensions among member countries. Industrial programming in the Andean Group originated as an instrument destined to correct the defects of LAFTA's old strategy.<sup>179</sup>

The Treaty of Cartagena defines industrial programming as a region-wide attempt to expand, specialize and diversify industrial production; by maximizing the development and utilization of subregional factors of production through economies of scale. In effect, industrial programming establishes de facto monopolies during the initial stages of development. Member states

are not to encourage investment, either domestic or foreign, in any sectoral industry except those assigned to them. Once production is under way, they may hedge on this commitment. Apologists of the Pact say sectoral industries are not regional monopolies but merely enjoy head-start advantages which infant industries need to become internationally competitive. Of course privileges such as tariff differentials and market access, once institutionalized, are difficult to revoke, because they create special interests.

Despite the pretensions of some Andean technocrats, Sectoral Programs of Industrial Development (SPIDs) are not supranational enterprises, based on efficiency criteria, but multilateral complementarity agreements in the classic LAFTA sense. The Cartagena Agreement provides the Pact members with considerable negotiating flexibility by requiring that SPID agreements determine only common external tariff rates on products included in sectoral programs, subregional production allocations, the terms of joint investment and financing and the harmonization of national policies (Art. 34). This flexibility suggests that sectoral programs will be exposed to excessive political pressure and thus lose their programming nature. The nation-state and not the subregion is still the basic unit of analysis

in Andean economic integration.

The Pact is presently facing an acute crisis because all 600 items reserved for possible inclusion in SPIDs, with the exception of the 150 products included in a Metalworking Agreement signed in 1972, will revert to the ANCOM's duty-free program at the level of scheduled tariff reductions on December 31, 1975; the deadline for approval of sectoral programs. Such trade liberalization is generally favored by the Pact's most developed members; Venezuela, Colombia and Chile who have worked to block SPID agreements. The liberalization is vehemently opposed by Peru, Ecuador and Bolivia who fear the untoward effects of commercial invasion should commercialism take precedence over detailed plant assignments. It is paradoxical that although industrial programming -- a classic example of David Easton's "authoritative allocation of values," -- is possible only through technical planning at the sub-regional-level, it is the component of Andean economic integration most buffeted by partisan politics. The Andean clash of national and regional priorities is most visible in industrial programming. It is, therefore, an excellent yardstick by which to measure Pact progress and solidarity.

Decision 57 - Metalworking Agreement

Thus far only one major Sectoral Program of Industrial Development has been approved by the Commission. Decision 57, the Metalworking Agreement, endorsed by the Commission on August 20, 1972, is of great potential significance to the Andean Pact. Presently 52% of all the subregion's imports are metal-mechanical in nature. Decision 57 covers a wide-range of product assignments, about 150 items in all, grouped into 72 assignable units. In about one-third of these 72 product groups, some items are already manufactured.<sup>180</sup> Immediate trade opportunities have been created because sectoral products enjoy unrestricted market access. Decision 57 does not include products of the automotive and steel industries which the Pact expects to program separately. Table 4 lists the product assignments made under Decision 57.

Some of the most important production assignments, especially in the area of mining, are shared; pulverizers, cultivators, generators and electric motors, rectifiers, transformers, mining equipment, centrifugal and turbo pumps, fluid-pass elements (valves, switches for electric installations, etc.). Observers have pointed out that excessive overlap of production assignments is uneconomic because it perpetuates inefficiency

by vitiating the rationalization of subregional production factors. Decision 57 demonstrates that industrial gerrymandering among countries separated by both great distances and resource and infrastructure disparities is not easily achieved.

Decision 57 stipulated that all non-tariff barriers on assigned metal-mechanical products be eliminated by September 30, 1972; 30 days after the agreement entered into force. Within this same period countries assigned products were to be given duty-free access to the subregional market. When these products originate in Chile, Colombia and Peru, duties on them are to be eliminated by December 31, 1980, and by the end of 1985 when they originate in Bolivia and Ecuador. On products assigned to more than one country, the reciprocal duty reduction starts from the lowest 1969 level in either of the countries and is reduced in three annual steps of 40%, 30%, and 30% to zero.<sup>181</sup> The common external tariff rates for the products included in the metal-mechanical SPID were determined by Decision 57. Applicable on imports originating outside ANCOM these CXT rates range from 35% to 80% ad valorem.<sup>182</sup> This is higher than pre-existing tariffs and prompted the Inter-American Development Bank to turn down a Pact request for funding because the IDB felt such excessive protection would lead to

"inefficiency." Fact members have to raise their existing duties to CXT rates, if the former is lower, for products already being manufactured. For all other items, the CXT floor begins on December 31 of the year prior to production setup. The CXT applies to parts of respective products and may apply to substitute products in certain circumstances. National external tariffs which are higher than the CXT rates are reduced to the level of the latter in the linear form between December 31, 1976 and December 31, 1980. The purpose of the CXT is to protect the infant metal-mechanical industry and establish adequate margins of regional preference.

Members are committed not to encourage new investment in those manufacturing activities assigned other signatories. Member states are not to offer any assistance, preferential credit terms, tax or exchange rate advantages, or authorize foreign investment in such industries. For products assigned to Chile, Colombia, Peru and Venezuela these commitments are binding until December 31, 1982; Bolivian and Ecuadorean production assignments are protected until the end of 1987.

Although Decision 57 stipulates that those signatories who do not submit feasibility studies to the Board on their production assignments within 2

years may have them revoked, as of February 1975, 40 such analyses had not yet been completed.<sup>183</sup> In this regard Bolivia has been the least conscientious Pact member.

Bolivia's attitude toward integration is one of disinterest. Bolivia has often been under-represented at important regional meetings and some officials have complained of a lack of travel funds. Bolivia is so far behind in its annual \$20,000 quota to the Board that Colombia has proposed that those in arrears be denied voting rights in the Commission. This apathy has spilled over into Bolivia's implementation of Decision 57. Despite the fact that La Paz has consistently maintained that "detailed planning and plant assignments" are indispensable for an "equitable sharing in new production facilities,"<sup>184</sup> as of early 1975 of 10 product assignments only 2 project studies have been submitted to the Board by Bolivia. Both of these, one on petroleum drills and the other on air compressors and drills, were not prepared by the government but by foreign companies.<sup>185</sup> The U.S. firm Dresser Industries, operating under the name Compania Andina de Triconos S.A. (CATSA) has invested \$1 million to produce petroleum drills. Dresser presently owns 60% of CATSA and plans to divest to a minority position within 10 years. Atlas Copco, a Swiss company has agreed to invest about

\$11 million to produce air compressors, assigned to Bolivia under Decision 57, and pneumatic hand-held rock drills, an assignment of Decision 28.<sup>186</sup>

Atlas Copco presently owns 90% of its equity and probably will use the full fadeout period of 22 years to divest to minority ownership.

Ecuador, which has long regarded industrial programming as the primary instrument of Andean integration strategy, has been more studious than Bolivia. Of Ecuador's 11 product assignments under Decision 57, CENDES has completed feasibility studies on the following seven: hydraulic drills, watches, revibrators, pneumatic valves, electro-mechanic tools and machines, and welding equipment.<sup>187</sup> Peru and Ecuador have invested \$25 million in a binational enterprise which will produce hydraulic drills.<sup>188</sup> It is the first binational company producing under a Decision 57 assignment. A Swiss group, Societe Horlogere Andino-Swisse, plans to invest \$4 million in a watch plant located near Cuenca. These Swiss foreign investors will own 51% of their operation. The Uniweld Company, a U.S. owned firm, has agreed to set up a plant, Uniweld Andina, to produce gas welding equipment on terms that have not yet been announced.<sup>189</sup> A Swiss company, A.B. Optimus Andina S.A., has decided to initiate operations in Ecuador to manufacture revibrators and soldering lamps.

Ecuador has decided to produce pneumatic valves without foreign assistance. Ecuador, with the participation of Romania, will soon be fabricating salicylic acid, a product assigned to Ecuador under Decision 28.<sup>191</sup>

Yugoslavia has agreed to participate in "Iska-Herramientas Mercanicas del Ecuador" which will produce hand-drills, sanders and other small tools.<sup>192</sup>

Ecuador will own 51% of the enterprise. Ecuador has also completed a feasibility study on piperonyl butoxide, another Decision 28 assignment.

Chile, despite the fact that it has received more financing from the ADC for metal-mechanical projects than any other Pact member, has expressed dissatisfaction with Decision 57. Chile has complained that if Decision 57 is fully implemented, its regional share of metal-mechanical production will drop from 52% to 23% over the programmed 15 year period. Other Chilean criticisms of Decision 57 include: lax rules of origin that would allow the Japanese to penetrate the market with fabricated steel; unnecessary competition induced by simultaneous assignments; no finance provision despite the requirement in the Agreement of Cartagena that SPID agreements are to include "measures to ensure their financing." (Art. 34, item b) Consequently, Chile, which has been nearly bankrupt for the last several years and unable to undertake extensive

new investments, has apparently failed to eliminate nontariff barriers or make the necessary tariff and CXT adjustments as prescribed by Decision 57.<sup>193</sup>

Chilean preparation of feasibility studies has likewise been slow. Of 22 assignments, only 12 project analyses on tractors, harvestors, milling machines, mineral drills, railroad equipment, pulverizers, generators and motors, rectifiers, transformers and scissors have been completed. Chile is already producing 10 of these 12 production assignments.<sup>194</sup> Chile has managed to attract very little foreign capital to its metal mechanical sector. Although the government has announced unprecedented inflows of new capital, especially in the mining sector, the only foreign investors to express interest in Chile's Decision 57 products assignments are Dresser Industries and Reed Tool. Their combined investment will be \$600,000.<sup>195</sup> Chile estimates that by 1980 the value of its metal-mechanical production assignments will be \$72 million.<sup>196</sup>

Colombia's market orientation has made Bogota reluctant to accept the rigid long-range import substitution policies entailed in industrial programming, especially in those industries subject to rapid technological change. Foreign Minister Lievano, at the annual Metallurgical Industry Convention in mid-1975,

said that Colombia "will not permit itself to be pressured" into sectoral agreements because such commitments are "irreversible."<sup>197</sup> At the same convention, a spokesman for Colombia's metallurgical industry criticized other Pact members for failing to implement Decision 57.<sup>198</sup> He could have included his own country in this indictment since it appears that Colombia lacks the political will to proceed with industrial programming. Colombia has completed 15 of 23 feasibility studies on such assignments as harvesters, thrashers, bakery equipment, precision medical instruments, looms and fluid-pass elements (valves).<sup>199</sup> For its most important capital-goods assignments, however, Colombia has convinced the Board to extend the fact-finding deadline. Resolution 26 gave Colombia until March 1, 1975, to submit studies on pulverizers, molding equipment, smelting furnaces, heavy equipment (earthmovers), refrigerators, compressors and washing machines.<sup>200</sup> Resolution 27 moved back the deadline for odontological apparatus to August 20, 1975.<sup>201</sup> Colombia has apparently not yet attracted much foreign investment to its 23 metal-mechanical assignments. It is hoped that the 1980 value of their production will be an estimated \$74 million.<sup>202</sup> Only Venezuela, which participates in the production of bakery equipment, has shown an

interest in said Colombian assignments.

In a Board ceremony on August 16, 1974, Peru handed over 41 feasibility studies covering all of its 25 product assignments under Decision 57. Project analyses were made on bottling and packaging equipment, ceramic equipment, elevating machines, lathes, winches, electric motors, rectifiers, voltage regulators, electromagnets, printing presses, tubs, mining drills, centrifugal pumps, other pumps, survey equipment, short-circuits, taximeters and parking meters, evaporators, looms, thermostats and gas tanks.<sup>203</sup>

Admiral Parodi, the Head of the National Integration Office, stated that Peru's strict compliance with its Decision 57 commitments was based on the national belief that industrial programming is the fundamental mechanism of the Agreement of Cartagena because it makes balanced and harmonious growth among the Pact members possible.<sup>204</sup>

The Head of ONIT also announced that within two years Peru's 25 metal-mechanical assignments will be in production. The Peruvian government estimates that \$68 million will be required through 1980 to sustain this production of which 40% will come from the social property sector, 40% will be invested by the state sector, and only 20% will originate in the reformed private sector. As of yet, little of this projected

investment has taken place. La Federacion de Choferes del Peru plans to install an evaporator plant at a cost of \$3.4 million.<sup>205</sup> Foreign manufacturers have generally been disinterested in Peru's metal-mechanical assignments.

One reason Pact members are proceeding slowly in the implementation and financing of Decision 57 is because Venezuela's belated entry into ANCOM has placed the metal-mechanical SPID in a state of abeyance. A Metal-working Committee has been set up to intergrate Venezuela into this sectoral program. Decision 70 stipulates that no production assignments can be revoked in incorporating Venezuela into Decision 57. This displeases many of Venezuela's civic and business leaders who point out that their metal-mechanical industry accounted for 53% of the subregion's 1970 metalworking production. Consequently, it appears as if nothing short of a complete revision of Decision 57 will induce the full support of ANCOM's most developed member, and this could lead to frictions between Venezuela and those signatories who believe Caracas is being intransigent and overbearing. The fact that ANCOM's most powerful member is not yet participating in the Pact's first sectoral program will make it that much more difficult for an area already suffering from a

critical shortage of financial, entrepreneurial and managerial resources to translate this paper success into new industrial plants.

Not only has Venezuelan entry into the Andean Pact had a crippling effect on Decision 57, but it has also altered both the essential nature of industrial programming and its formulation. Venezuela insists that it has an indispensable right to build new plants outside the Pact allocation process as long as their production is exclusively for third countries.<sup>206</sup> Although Venezuela considers the subregional market attractive, its yardstick of investment feasibility appears to be competitiveness in the world market. Consequently, Caracas has worked unceasingly in the 1 1/2 years it has been a Pact member to forge links between ANCOM and the world economy. Venezuela's sensitivity to global supply and demand patterns is antithetical to the technocrat-directed industrial programming strategy of region-wide import substitution embodied in the Agreement of Cartagena. Consequently, Venezuela has not only berated the Board, but systematically worked to circumvent it in formulating SPID proposals. Venezuela's \$1 million donation to the Board, made shortly after joining ANCOM, may have been interpreted by some technocrats as a bribe. When the Board failed

to alter its programming strategy, Venezuela accused it of being influenced by foreign multinational corporations. Colombia, whose commercialist objectives clash with the developmentalism of the technocrats, has also been critical of the Board. An editorial in La Republica printed this June accused the Board of a "notorious lack of neutrality."<sup>207</sup> All three Board functionaries, Felipe Salazar of Colombia, Germanico Salgado of Ecuador, and the Chilean Salvador Luch have privately indicated that they will not seek a third term when their second three-year mandate expires at the end of the year.<sup>208</sup> Perhaps new blood will boost the sagging morale of ANCOM's technocrats. It is certain that one of the successors will be a Venezuelan. Other candidates for a Junta slot are Guillermo Maldonado of Ecuador, and two Peruvians, Javier Silva Ruete, the present Board Secretary, and General Luis Barandiaran, former chief of ONIT.

Venezuela is the Pact member most responsible for ANCOM's present paralysis. A Venezuelan presided over the Commission during 1974 and was instrumental in setting up ad-hoc inter-governmental committees, chaired by his countrymen, to harmonize the positions of Pact members on petrochemical, automotive and fertilizer sectoral programs and report areas of consen-

sus to the Commission. This has ensnared industrial programming in partisan politics by bypassing the Board in policy formulation. If Venezuela were to develop a strategy designed specifically to immobilize ANCOM's industrial programming and at the same time strengthen its own industrial base to enhance its subregional and global competitiveness, it would not differ materially from the present Venezuelan integration policy.

Petrochemical SPID

Venezuela's influence on industrial programming is immediately visible in the current SPID petrochemical proposal which is the likeliest candidate to become the second major sectoral program approved by the Commission. The first, and at present, the only petrochemical agreement among Pact members was entered into under the auspices of LAFTA (Complementarity Agreement No. 6) by Peru, Bolivia, Chile and Colombia in July of 1967. It has lead to the establishment of an acrylic fiber plant in Peru, an insecticide venture in Bolivia, the expanded production of both pentacrythritol in Chile and caprelactam in Colombia.

At the time Complementarity Agreement No. 6 was signed, subregional demand was insufficient to support more than 1 or 2 petrochemical complexes and the buyer

predominated in the world market. Consequently, this agreement is oriented toward import substitution. The recent dramatic change in world oil market conditions, coupled with the Venezuela's entry into the Andean Pact, now may transform the modest autarkic petrochemical policies of Complementarity Agreement No. 6, into an ambitious program for producing and selling to the world market. The present open model petrochemical proposal would allocate only 58 products out of a proposed 150 item production assignment,<sup>209</sup> and only 15 products would be assigned exclusively to specific countries. The most important basic feedstocks are not assigned and would therefore be subject to immediate trade liberalization within ANCOM; a provision which potentially favors the petroleum producers and exporters--Venezuela, Ecuador and Bolivia. Signatories are not to accept foreign investment or technology in their product assignments.<sup>210</sup> The anti-dumping measures of Decision 45 are to be the principal regulatory mechanism of the agreement.<sup>211</sup> Bolivia and Ecuador are to be granted special advantages but the interest of the subregional consumer is also to be taken into consideration. Plants can be installed for unassigned products provided the entire output is to be exported outside the subregion, Andean raw materials are used, sales

within the subregion are authorized by the Board and subject eventually to the full CXT, which will range from 25% to 40% ad valorem, and a sales tax equivalent to the CXT is levied on sales within the country authorized by the Board.<sup>212</sup> The proposal would also roll back the date of production 2 years from December 31, 1980 to December 31, 1982; this because of the protected nature of petrochemical negotiations.

Bolivia, which has in the past negotiated with Peru to establish a joint resin-polymer plant, generally supports the open model approach. However, La Paz has expressed concern that the present proposal is not sufficiently tight to ensure establishment of plants in its territory.<sup>213</sup> As a consequence Bolivia and Ecuador are insisting that petrochemical, automotive and fertilizer sectoral programs be approved as a package. Bolivia is also pushing for additional ethylene-based assignments to permit feasible production of this feedstock and wants an exclusive assignment of maleic anhydride.<sup>214</sup>

Ecuador too wants detailed plant assignments but supports Venezuela's concept of parallel plants to market assigned products outside the subregion because it is ANCOM's second leading petroleum producer. Ironically, such a policy will allow Venezuela to capture the outside market for such proposed Ecuadorean

assignments as ethylene glycol.

Chile has adopted a pragmatic attitude toward the open model proposal. Despite the fact that Chile is ANCOM's leading importer of petroleum products, the Pinochet regime has reportedly made an informal agreement with Venezuela whereby the latter may produce any exclusive Chilean petrochemical assignments provided they are destined only for the Venezuelan market. Caracas in return will help finance some of Chile's production assignments. Apparently Chile is more interested in the Argentine market than the Venezuelan one. Moreover, Chile believes that the open model proposal is more compatible with its present laissez-faire orientation than previous import substitution schemes. Chile would like to participate in the production of DMT, the principal material of polyester fibers, an assignment Colombia and Venezuela are presently fighting over.<sup>215</sup>

Peru is the most outspoken critic of the open model because it claims the present SPID proposal vitiates the two basic objectives of industrial programming; the harmonious and balanced growth of the subregion and the rationalization of production through economies of scale. Lima insists that by emphasizing exports to third countries, and reducing intraregional

tariffs almost immediately to zero on unassigned products which constitute more than 60% of the potential petrochemical assignments, the open model proposal would allow surplus producers such as Venezuela and Ecuador to reap excessive benefits. Moreover, Peru contends that by not assigning the most important feedstocks and intermediates to any single country (principal plastic resins, low density polyethylene, PVC suspension grade and polystyrene are assigned to all six Pact members under the proposal) the open model would lead to the establishment of six separate and grossly inefficient petrochemical complexes instead of a single integrated one. Peru wants to abandon the excessive commercialism of the open model for a petrochemical sectoral program oriented to import substitution, a typical deficit country reaction. Peru claims that production assignments should be broader and more balanced, especially in the aromatic and olefin product groups.<sup>216</sup> Lima also seeks an expanded market for its acrylic goods. Peru believes the proposed CXT is too low to establish an "adequate sub-regional captive market,"<sup>217</sup> while Venezuela and Ecuador consider it too high. Peru has proposed that joint petrochemical complexes be established between itself and Bolivia, and between Colombia and Ecuador.

Venezuela has made it clear that it plans to make

massive investments in its petrochemical sector whether or not ANCOM approves its open model proposal. Besides nationalizing foreign-owned oil companies, Venezuela soon hopes to expand its production of such vital feedstocks as polyethylene, polypropylene, polypropylene tetramer and ammonia.<sup>218</sup> Venezuela's private sector, lead by FEDERCAMARAS, would like to spend \$1 billion on developing and expanding such facilities.<sup>219</sup> Dow Chemical and Fluor Latin America have made proposals for joint petrochemical ventures as soon as the oil nationalization bill becomes a law.<sup>220</sup> Other Pact members are likewise investing in the petrochemical sector but lack the resources to match Venezuela's effort.

#### Automotive SPID

The prospects for achieving a multilateral agreement in industrial programming vary inversely with the length of SPID negotiations. The more extended the time frame, the greater the chances Pact members will raise their level of investment in the prospective sectoral industry. This compounds the disincentives for phasing-out production and forfeiting future production rights. Because present subregional investment is greater in the automotive sector than the petrochemical industry, it is less likely than the latter

to be approved by the Commission.

Unlike the export-oriented petrochemical proposal, the automotive sectoral industry will produce only for the protected subregional market without prospect of international competitiveness. The key elements of the current automotive proposal include a high CXT, assignment of "basic models" on basis of Pact member selection, a gradual phasing out of "parallel vehicles" (i.e., those vehicles currently manufactured but not selected), a complicated system of origin requirements to encourage a gradual specialization in component manufacture with headstart advantages for Bolivia and Ecuador, and a system to permit component import-export arrangements with third countries.<sup>221</sup>

Bolivia and Ecuador believe that the present automotive SPID proposal undermines the Pact principle of preferential treatment because it fails to make detailed plant assignments; signatories select their own production assignments. Both regard equitable involvement in industrial programming as crucial to the survival of ANCOM. A recent Ecuadorean editorial called the present SPID imbroglio the "most serious crisis" ANCOM has yet faced, which, if not resolved, could lead to the defeat of the Andean Pact. In view of the Pact's waning commitment to establish manufacturing and assembly operations in Bolivia and Ecuador,

both have decided to proceed with their own automotive investment programs.

Ecuador has been negotiating with General Motors for several years on the production of the small Basic Transportation Vehicle (BTV); reportedly GM is considering \$4 million equity participation in the venture.<sup>222</sup> Venezuela and Ecuador have signed a truck manufacturing agreement, presumably to produce 1,000-1,500 cc vehicles, and jeeps and trucks that range in weight from 9,000 to 17,000 kilograms.<sup>223</sup> Moreover, Ecuador has agreed to place a 1 billion bolivar bond issue on the Venezuelan capital market to fund priority projects in Ecuador.<sup>224</sup>

Bolivia has signed a contract with Fiat-Concord of Argentina to manufacture tractors even though Colombia and Peru have announced their intention to produce these vehicles.<sup>225</sup> Recently the Bolivian government, under great pressure from the Armed Forces, signed an agreement with Mercedes Benz to assemble about 2,000 6 and 11 ton trucks a year near Cochabama.<sup>226</sup> Mercedes-Benz will own 67% equity in the venture.

Chile, which is second in the subregion only to Venezuela in automotive production, announced on August 18, 1975 that it was reducing the number of its auto manufacturers to three companies; General Motors,

Fiat and Peugeot, The Chilean government has cancelled its contract with Pegaso of Spain.<sup>227</sup> Nissan and Volkswagon were unsuccessful in their bids to open up operations in Chile. The disposition of the Ford plant at Casablanca remains unclear. General Motors, after receiving "firm guarantees and security to work and invest,"<sup>228</sup> has agreed to reopen its truck plant at Arica. Fiat and Peugeot will manufacture vehicles ranging from 1,500 to 2,000 cc, despite the Board's recommendation that the maximum capacity for "basic" vehicles be 1,500 cc.<sup>229</sup>

The Pinochet regime predicts that foreign investment in Chile's automotive sector will reach \$100 million in the coming years. Chile has also announced liberal import policies on new and used cars and trucks. Tariffs on these vehicles will drop from 115% ad valorem in 1976 to 55% ad valorem in 1983. Chile recently agreed to import chassis and engines for 850 minibuses from Argentina.<sup>230</sup> Chile wants the classification system of the present automotive SPID proposal changed so component parts such as starters, alternators, voltage regulators, coils, horns, windshield wipers, shock absorbers and flexible cables may be freely traded.<sup>231</sup>

Colombia, true to its commercialist tradition, opposes administrative action or the application of differential external tariffs to phase out parallel vehicles.<sup>232</sup>

Colombia also believes the proposed CXT is too high on some production assignments; Colombia wants to lower it from 45% to 20% ad valorem on tractors, and from 65% to 40% ad valorem on trucks and buses.<sup>233</sup>

Bolivia and Ecuador say this would reduce the feasibility of local production. Like Chile, Colombia believes the automotive sectoral program should focus on parts and components rather than assembled vehicles.<sup>234</sup> Last year, when Renault-Sofasa, Chrysler-Colmotores and Colombiana de Ensamblase halted production, Colombia threatened to authorize the imports of completed vehicles.<sup>235</sup>

Colombia, apparently looking for a pretext to stall industrial programming, refused to participate in discussions of the petrochemical and automotive SPIDs until the Chilean investment law problem, Decree 600, was resolved. As a consequence, a half a dozen Commission meetings were postponed during 1975. ANDI, Colombia's National Association of Industries, recently complained that the stalemate had paralyzed "a good number of industrial projects," and concluded that "the Andean Group had lost the great dynamism experienced in the first years."<sup>236</sup> Yet Bogota has maintained an intransi-

gent position that production assignments should be allocated not on the basis of present production (Colombia produces about 18% of the subregion's vehicles), but in proportion to national population, in which case Colombia would be awarded more than half of the subregional automotive production. Like other Pact members, Colombia continues to expand its automotive operations. Pegaso has agreed to build a new assembly plant at Medellin to produce 5,540 heavy trucks in 1975.<sup>237</sup>

Peru has announced that the Canadian-owned Massey-Ferguson will install a plant to produce tractors; equity will be split on a 49/51 percentage basis in favor of Peru.<sup>238</sup> The British company Perkins-Volvo plans to produce deisel engines in Peru; INDUPERU will own 52% of the equity and the remaining 48% will be equally split between Perkins and Volvo.<sup>239</sup> Peru's enthusiasm for Decision 57 has not carried over into the proposed automotive sectoral program. Peru believes, as do Ecuador and Bolivia, that the present automotive proposal, by failing to emphasize import substitution and the programming of project assignments, would allow the more industrially advanced members of ANCOM -- Venezuela, Colombia and Chile -- to monopolize subregional production. It

is believed that some Peruvian army officers feel an automotive SPID would compromise national security since they consider transport a strategic service. A recent Prensa editorial observed that the extreme political differences among the countries of the region are indicative of the weakness of the base on which the Andean integration rests.

Even Venezuela has expressed dissatisfaction with the automotive SPID proposal. Venezuela is by far the largest auto producer in the Pact. In 1972 Venezuela accounted for 54% of ANCOM's automotive production. At present there are some 14 vehicle assemblers in Venezuela. Of the vehicles they produce 63% are U.S. models and 37% are European.<sup>241</sup>

Venezuela does not view industrial programming as a means of altering prevailing production patterns. Consequently, Caracas regards the present automotive SPID proposal simply as a process of reducing the number of its 14 assembly operations; an action the government plans to take irrespective of the outcome of the present negotiations.<sup>242</sup> Both civic and business leaders have stressed that retention of Venezuela's subregional share of production is a precondition of participation in any automotive sectoral program.<sup>243</sup>

V. ANDEAN MULTINATIONAL ENTERPRISES

Articles 38 and 86 of the Agreement of Cartagena recommend that a new type of multinational enterprise be created to facilitate industrial programming, the transfer of technology and the process of physical integration. Decision 46 defines the nature and scope of the Andean Multinational Enterprise (AME). An AME can be constituted of no less than two Pact members, each owing a minimum of 15% of the enterprise. Article 62 of Decision 46 is noteworthy because it allows the Andean Development Corporation to purchase AME shares as if it were a member state. Foreign investors can own no more than 40% of an AME, and they are still subject to Decision 24, with the exception of the divestment provision. The AME is to receive treatment no less favorable than a national enterprise which means it has complete access to domestic credit, enjoys trade liberalization benefits and can reinvest without restriction. Like the foreign enterprise the AME is subject to the laws of its host. Said enterprise must register with the "competent national authority" which determines its remittance rate. With the authorization of said authority the AME can participate in sectors reserved for the national enterprise.

The Andean private sector is enthusiastic about Decision 46 because it accords intraregional capital, irrespective of the country origin, the same treatment as "national capital" (otherwise subregional investors are considered foreign investors, Article 30, paragraph 4 of Decision 24 "notwithstanding.") At the Fourth Convention of the Andean Chamber of Commerce, held in Santiago, June 9-12, 1975, it was resolved that an Andean Development Fund, in the form of an AME, be created to finance Bolivian pre-investment studies and "action projects."

Venezuela considers the AME an indispensable element of Andean integration. Foreign Minister Hector Hurtado said in a speech before the Board of Directors of the Andean Development Corporation that the \$60 million recently offered by Venezuela to the ADC was to be used "for the promotion of trans-andean enterprises."<sup>244</sup> Such a statement does little to assuage the fears of those that believe the AME will become a vehicle of Venezuelan economic expansionism.

Venezuela is partner with Colombia in at least three binational enterprises that could qualify as AMEs. The smallest is a \$100,000 sugar factory called Zulia-Urena, financed by "Las Central Azucareras

S.A. de Venezuela y la Promotora de la Central Azucarera del Rio Zulia, de Colombia.<sup>245</sup> Plans exist to increase the plant capacity of this enterprise. A second joint venture produces bakery equipment, a Colombian production assignment under Decision 57.<sup>246</sup> La Empresa Mixtes Monomeros Colombo-Venzuelano is the largest of the three. In 1973 this binational enterprise exported 1,000 tons of caprolactama to South Korea, its first external transaction.<sup>247</sup> Monomeros is negotiating with the ADC for a loan in excess of \$5 million to expand operations. Plans are being laid for additional binationals. Venezuela's private sector and its Colombian counterpart initiated 1,000 binational feasibility studies in the fields of plastics and metalworking in September of 1972; prior to Venezuela's formal pact entry. Recently these groups announced that any binationals they establish will operate within the framework of Decisions 24 and 46.

Perhaps the greatest potential for joint AME activity lies in Colombia's prodigious coal and copper deposits. President Lopez recently cancelled a tentative agreement with Brazil to develop more than 50 million tons of proven coal reserves of

extraordinarily low volatility of Zipaquira-Samaca (Cundimarca). Brazil was planning to invest up to \$1 billion which would have made this the biggest Brazilian project in Latin America next to Itaipu. However, the door is now open to Venezuelan participation. With Colombian coal to augment its other sinews of industrial power -- iron, petroleum and water -- Venezuela could easily become the Pact's industrial powerhouse. Venezuela is also promoting physical integration with Colombia. Venezuela is presently building a bridge, which is being financed by the ADC, over the Limon River. In addition to sponsoring numerous bilateral high-level conferences to promote reciprocal trade, tourism and industrial activities, the Venezuelan government has sought Colombian political backing for SELA (Sistema Economico de Latin America), a Mexican and Venezuelan-sponsored regional group which does not include the United States.

Venezuela has discussed AME arrangements with Bolivia, Ecuador and Peru. Recently it was announced that Ecuador and Venezuela have signed a truck manufacturing agreement. Venezuela is underwriting many Ecuadorean development projects through the floating of bonds. Closer economic ties are

in part due to the common OPEC connection.

Other possible AME activity involving Pact members other than Venezuela includes Chilean-Ecuadorean enterprises engaged in the manufacture of corrugated cardboard, electronics and metalworking, and a Peruvian-Ecuadorean metalworking venture. Other binational projects being considered include a mixed Chilean-Colombian textile operation and joint Colombian-Ecuadorean frontier projects in wood pulp, palm oil, wood furniture and ceramics.

Despite the fact that Decision 46 is important to the harmonization of the economic policies of the subregion, it has not yet been ratified by Peru. The lack of ratification has cast a shadow of uncertainty over the measure which inhibits the formation of such enterprises. Lima fears that its adoption will induce a massive flight of private Peruvian capital. Moreover, the AME concept is at loggerheads with the national programs of social transformation such as the "industrial community," a system that enables Peruvian workers to acquire 50% ownership in their company. At the same time it is felt that the AME is too vulnerable to foreign penetration, and that it could easily become the Trojan horse of huge American multinationals or Venezuela.

The Chilean government, in an effort to break out of diplomatic isolation caused by its controversial foreign investment law, has announced its intention of offering for sale, in accord with Article 3 of Decision 24, to "national or subregional investors," the shares of 76 Corfo-owned businesses before turning to foreign investors. This move not only mitigates Chile's liberal image with respect to enforcement of the Andean Investment Code, but also underscores Peru's noncompliance with Decision 46. All of which adds up to a Pact dilemma. Not only does it underscore the critical capital shortage of the subregion, but it also compels Peru to make explicit what has been an implicit reality of the Pact since its inception -- that in the clash between national and subregional priorities, the former always take precedence. Lima would rather foreign investors purchase Chile's Corfo shares than risk the possibility of local Peruvian capital outflows.

Ironically, Peru is partner to one of the few binational enterprises that qualifies as an AME. According to Francisco Rosales, Ecuador's Minister of Industries and Commerce, the Catapax Steel Industry (INDACO) is the only one of its kind in the Pact.<sup>249</sup> INDACO is 45% owned by El Grupo de

Herramientas Nacionales de Acero de Peru (FAHENA). The remaining equity is divided between Ecuador's Corporacion Financiera Nacional, and its Direccion de Industrias de Ejercito. It manufactures helicoidal drills and reels, Ecuadorean assignments under Decision 57. Thus far \$2.5 million has been invested. INDACO has more than a half million dollars in loans from the ADC.

## VI. ANDEAN DEVELOPMENT CORPORATION

### Background

The Andean Development Corporation (ADC) was chartered on February 7, 1968, some fifteen months prior to the signing of the Agreement of Cartagena. Its shareholders include the six Pact members, and subregional organizations and private citizens.

Stocks of the ADC are divided into three categories: A, B and C. Each Pact signatory is required to purchase one share of "A" stock valued at one million dollars. The charter stipulates that owners of this stock can withdraw from the corporation only by surrendering their shares to the ADC, for which they will be paid book value over a period not to exceed five years.

Class "B" shares are worth \$5000 each, and are allocated to each member state, or semi-public institution, private person or corporation duly authorized by them. Private persons and corporations cannot hold more than 40% of a state's allotment. The initial assignments of "B" shares were as follows: 900 shares each for Chile, Colombia, Peru and Venezuela and 100 shares each for Bolivia and Ecuador. Payment for the above A and B shares has been received bringing to a total of \$25 million paid to the ADC; one-fourth of the \$100 million originally authorized.

Class "C" shares are to be sold to non-Andean countries, corporations and agencies. Their characteristics have not yet been determined by the Board of Directors. The ADC charter does, however, prohibit class "C" shareholders from voting. In November of 1974 the ADC created its first "C" shares. Up to one million dollars worth have been approved for sale. To date no "C" shareholders exist. Spain has offered to purchase \$5.5 million worth of "C" shares.<sup>250</sup>

The November 1974 Assembly of ADC shareholders decided to expand the corporation's capital base from \$100 to \$400 million. In addition to the aforementioned newly created \$100 million in "C" shares, the assembly decided to issue an additional 40,000 "B" shares, valued at 200 million dollars. Chile, Colombia, Peru and Venezuela must purchase 8,800 of these shares. Bolivia and Ecuador are assigned 2,400 each.

#### The ADC's Social Capital

Paid subscribed capital	25.0
Subscribed capital not paid	275.0
New "C" stock	100.0
	<hr/> 400.0

The ADC's 11 man Board of Directors is made up of persons appointed by each of the six Class A shareholders, and five elected by the Class B stockholders. The Board determines the financial, credit and economic policies of the ADC. Its Executive President is elected

to a five year term.

Although the ADC is the Pact's financial body, it performs sundry functions normally not within the purview of an international financial institution. The corporation makes feasibility studies and provides technical support for industrial programming. These duties closely parallel those of the Junta. Such overlap makes the relationship between the ADC and ANCOM's technical organ, the Board, difficult. By placing the purse strings in the hands of the quasi-autonomous ADC, the Andean Group has decentralized the process of regional planning.

#### Industrial Programming

The primary function of the ADC is to finance industrial programming. In its report to the First Extraordinary Assembly in November 1974, the ADC's Board of Directors stated that industry is the central axis of integration.<sup>251</sup> This is consonant with its convention's charge that the ADC should stimulate integration through the "creation of productive enterprises or services and expansion, modernization or conversion of existing ones." The ADC estimates that between 1975 and 1985 about 6 billion dollars will be needed to finance the eleven major SPIDs that the Board is planning.<sup>252</sup> Among the most expensive will be the

petrochemical (\$1.6 billion), siderurgical (\$1.4 billion) and automotive (\$1.0 billion) programs. It is estimated that the cost of the Metalworking SPID, approved in August of 1972, will reach \$441 million by 1985.

Below is a chart of [ANCOM's] projected expenditures for the 1975-1985 period.

Projected Expenditures	Millions of Dollars
Industrial Programming	6.041.0
Technological Program	33.0
Andean Trunk Road System	500.0
Andean Merchant Marine	4.500.0
Land Transport	30.0
Agro-business and Storage	100.0
Intraregional Commerce	1.000.0
Total	<u>12.204.0</u>
Preinvestment	40.5
	<u>12.244.5</u>

\*Prepared by the ADC with information provided by the Junta as cited in Agenda de Primera Asamblea Extraordinaria de Accionistas 21 al 22 de Noviembre 1974, Corporacion Andina de Fomento, Caracas 6N/35, Octubre 31, 1974, p.73

The performance of the ADC in the area of industrial programming can be partially measured by its financial support of Decision 57, the first and thus far only SPID approved by the Commission. Table 5 shows the ADC's operations through October 31, 1974.

Only about \$4.7 million of the almost \$23.5 million loaned by the ADC to the member states as of October 31, 1974 has been spent on projects which appear to relate to Decision 57, the Metalworking SPID. Chile has received more than \$4 million of this

figure. The remaining \$18 million has gone for projects that dovetail more with national than regional priorities. The largest loan listed of nearly \$7 million went to LAN of Chile to purchase a jet airliner. Venezuela received about \$1.5 million to build a bridge over the Limon River to facilitate closer commercial ties with Colombia. Bolivia's biggest loan of \$2.2 million went for expansion of a tin smelter. Another loan to Bolivia of \$1.3 million is helping to build a network of rice silos. Colombia has yet to receive a loan from the ADC. Her low profile in the corporation may be attributed to Colombia's strong commercialist bias and her penchant for doing business with other international institutions such as the Inter-American Development Bank. The ADC still lacks the portfolio muscle to have much of an impact on subregional integration. For example, in June of 1974 Bolivia received an IDB loan of \$35 million, a sum larger than all the ADC's operations to date.<sup>253</sup>

The ADC's modest capital base is a symptom of the political discord underlying the Pact's industrial programming. ADC officials have said: "At the moment the pace of the Andean Group planning is putting a brake on what we'd like to do. Maybe we'll get some guidelines on petrochemicals or automobiles next year."<sup>254</sup>

However, they quickly added - "if we have good projects the money will come rolling in."<sup>255</sup> Good projects mean SPIDs which presuppose a degree of multilateral agreement that has hitherto not been achieved. Such political solidarity is a sine qua non of the ADC's ability to fulfill its envisaged role in integration, as it is with every other Pact instrument.

Another problem the ADC faces revolves around its supranational nature. The ADC, while enjoying the status of an international bank, is authorized under its charter and Decision 24 (Art. 30, paragraph 4) to operate as if its project financing counted as "national capital." This has precipitated legal problems. Peru delayed a loan to Minero-Peru for more than a year until the courts determined who had jurisdiction over the contract.<sup>256</sup> This underscores ANCOM's need to create an Andean court to define the interface between international commitments and national statutes.

Despite the Pact members' haggling over SPIDs, the ADC has been making a heroic effort to expand its capital base through both internal and external financing. As noted earlier, the ADC will try to raise its assets from \$100 million to \$400 million during the next decade. Its charter permits the corporation to borrow four times its subscribed capital, so conceivably the

ADC could become a major financial powerhouse in the near future. It has been reported that the ADC is putting together \$800 million worth of projects over the next two years, of which the corporation plans to finance at least 20%.<sup>257</sup> Contemplated loans include \$18.7 million to YPFB of Bolivia to construct part of a petrochemical complex in Cochabamba to produce benzene, tholnene, and xilene,<sup>258</sup> \$17.5 million to Minero-Peru to exploit the Bayovar phosphates, \$5.5 million to Monomeros, a joint Colombian-Venezuelan enterprise, and a \$5.0 million credit to a binational Argentine-Bolivian company, Sociedad Agroquimica Latino-americana, that will produce insecticides. Whether or not these loans presage a strong rate for the ADC will depend on the ADC's ability to attract subregional capital. On this score the ADC record is not admirable.

As of October 31, 1974, all of the credits extended to the ADC by the member states are "tied" to their respective exports. This impugns the signatories resolve to make the corporation an impartial development agency promoting industrial planning and development. Below is a diagram of the ADC's disposable capital base.

Disposable Resources for the Financing of Projects

(In U.S. Dollars)

<u>Organization</u>	<u>Amount</u>	
A.I.D. (U.S.A.)	14.000.000	(1)
CIDA (Canada)	5.197.675	(2)
FOMEX (Mexico)	5.000.000	
CACEX (Brazil)	5.000.000	
ADC Bonds-Short-Term issued to Central Banks of Subregion	4.750.000	Working capital & financing for intra- subregional exports
PROEXPO (Colombia)	10.000.000	To be used to ac- quire Colombian goods & services
Banco Industrial del Peru	10.000.000	To be used to ac- quire Peruvian non- traditional exports
Banco Central de Bolivia	2.000.000	To acquire Bolivian goods & services
Total	<u>55.947.675</u>	

(1) Subscribed amount	U.S. \$15.000.000
Preinvestment	500.000
Promotion	500.000

(2) Subscribed amount in Canada \$ 5.000.000

Corporacion Andina de Fomento, Agenda de Primera  
Asamblea Extraordinaria de Accionistas 21 al 22 de  
noviembre, 1974, Caracas 6N/35, Octubre 31, 1974  
"Recursos Disponibles Para El Financiamiento Del  
Ejecucion De Proyectos y Comercializacion," p. 115.

Of the \$56.0 million listed as disposable resources  
by the ADC about \$16.0 million can be used only for  
financing commerce. The Junta has recommended that  
such financing be limited to intraregional trade but  
this is ultimately left to the discretion of the member  
states. Originally commissioned to finance "develop-  
mentalism," the ADC is being relegated to the status

of a multilateral commercial bank. This dereliction of the ADC's integration role has come about ostensibly because the Andeans do not want industrial programming badly enough to pay for it. It also demonstrates that ADC, like all Pact instruments, is more a political creature of Pact members than a supranational entity.

Venezuela is the only Pact member that has offered the ADC, aside from subscription commitments, any money for financing industrial programming. Since entering the Pact, Venezuela has been among the most strident proponents of the sectoral industries. President Perez has said, that "industrial programming at the regional level is indispensable to achieve the type of integration that will fulfill the development aspirations of the (Andean) countries, provide adequate utilization of the available resources, and promote prosperous and efficient industry."<sup>259</sup> In March of 1975 the Venezuelan Foreign Minister, Hector Hurtado, announced that his country planned to set up a fiduciary fund under the auspices of the ADC of \$60 million. Hurtado noted that this fund would "parallel" the \$500 million fund Venezuela had recently instituted in the IDB, whose purpose is to facilitate industrial and energy developments in Latin America.<sup>260</sup> Despite the announcement, the deal has not yet been concluded; there are rumors

that the ADC cannot accept the fund's strings, which, if similar to those of the IDB fund, would give Venezuela a veto over disbursements.<sup>261</sup> Venezuela claims that its ambitious development plans are predicated on the Pact's Sectoral Programs of Industrial Development.<sup>262</sup> Reinaldo Figueredo, President of Venezuela's Institute of Foreign Commerce, has warned that should SPID negotiations bog down, the Pact would be the real loser since his country "is capable of independent development" not only because it has ample international reserves, but because it has a large domestic market.<sup>263</sup> The devotion of ANCOM's richest member to the tenets of developmentalism is more pragmatic than altruistic. Enrique Vial Clark, the ADC's chief economist, said, in June of 1973

Venezuela is one of the subregional countries that can best benefit from integration. The country's average level of industrial development is one of the most advanced in the area: i.e., it has the most modern installations. Because its project resources are more ample, the country can afford to decide matters more rapidly than other countries where each peso to be invested must be carefully scrutinized in terms of costs and the scarcity of domestic capital. Venezuela can also acquire more expensive and sophisticated technology, and can afford operations that are more capital-intensive.<sup>264</sup>

Efforts by the ADC to mobilize private funds of the subregion have not been successful either. Ever

since 1971 the ADC has been trying to establish an Andean Fund that would channel private savings into integration activities. This ADC proposal got an unexpected boost on February 8, 1973, at the second session of the Conferacion de Camaras de Comercio del Grupo Andino. A resolution was passed recommending that an investment fund be created and placed in the hands of the ADC to finance projects related to integration. Such a fund was to become ANCOM's most important private participation mechanism. At the most recent Andean Chamber of Commerce Convention, held in Santiago, in June 1975, it was resolved that this fund take the form of an Andean Multinational Enterprise under the auspices of Decision 46.<sup>265</sup> Because of the private sector's apprehension about integration schemes, these proposals have thus far generated little interest. Moreover, the quiescence of the member governments is symptomatic of their lack of enthusiasm for private participation in the Pact and a fear that such proposals would induce massive capital flight.

The ADC is now soft-selling the Andean Fund as a method to finance the region's commerce. It has proposed that said fund be administered by the central banks of the subregion to avoid "the undesirable liberation of capital controls."<sup>266</sup> Originally con-

ceived as an avenue through which private capital could make a contribution to integration, the Andean Fund has become yet another victim of Andean statism. It is little wonder that the Andean Chamber of Commerce recently chided the ADC for not intensifying its efforts in the private sector "to fortify the financial structure of the medium and small enterprise."<sup>267</sup>

#### External Financing

The ADC's success in procuring external financing has likewise been limited. Most of this money, like the ADC's internal financing is tied. To date A.I.D. has provided the ADC with its biggest loan; \$15 million. It is to be amortized over a period of 40 years with a 10 year grace period. Interest rates are 2% during the first 10 years and 3% for the remainder. The only stricture is that this money be reloaned to the private sector. The Canadians have also made a concessionary loan to the ADC valued at 5 million in Canadian dollars. These funds are to be used "to carry out projects" (primarily industrial programming) and technical assistance. The Bank of Mexico has granted the ADC a credit line of \$5 million of which 70% is tied. Interest rates are 1/2% higher than prime for the tied portion and 2% higher than prime for the remaining 30%. Another \$1 million has been

tendered to finance preinvestment studies of joint Mexican-Andean projects. Mexico is especially interested in joint technical and investment projects with Colombia and Peru in steel, textiles, railroads, and diesel motors. Brazil, in an apparent effort to neutralize Mexico's Andean influence, has provided the ADC with a nearly identical loan.<sup>268</sup> In February of 1975 the Export-Import Bank of Japan made a \$10 million long-term loan payable in yen to the ADC.<sup>269</sup> Spain and Argentina have expressed the desire to set up similar funds to finance their exports to the sub-region, but no formal agreements with the ADC have yet been reached. Of the various international organizations, only the IDB has provided the ADC with any financing; a \$750,000 loan for technical assistance and a \$40,000 grant earmarked for a pharmaceutical pre-investment study.

As depicted on page 140, about 70% of the ADC's disposable resources consists of external financing. The preponderance of tied aid seriously prejudices the Pact's ability to create an autonomous regional development policy. The price for such reliance will be continued external dependence.

#### Technical Assistance

A pillar of industrial programming is technological

infrastructure. Decisions 24 and 84 of the Andean Commission attempt to create and consolidate an indigenous technological base by "disaggregating the foreign technological package." The Treaty of Cartagena stipulates that Bolivia and Ecuador are to receive preferential treatment in this process (Arts. 38 and 88). There are essentially two reasons why ANCOM is supposed to make a concerted effort to upgrade the economic infrastructure of these countries. First, to make them more attractive to the foreign manufacturer, who in the absence of such action would probably invest in more developed markets. Second, because of the dearth of trained manpower in these countries to perform the necessary feasibility studies--much less set up integrated petrochemical and steel plants--it is expedient that they receive technical assistance to fulfill SPID assignments. The ADC is supposed to play a crucial role in mobilizing public and private funds to finance these technical assistance programs.

Thus far, only \$47,800 in technical assistance, of which \$29,300 has been paid, has gone to Bolivia for a preinvestment metalworking study (See table 3). Ecuador has been loaned \$50,000 in technical assistance for a petroleum project of which less than half has been

disbursed. Such modest results raise doubts about the willingness of other Pact members to engage in multilateral checkbook diplomacy. It is also a result of the heavy emphasis the present ANCOM technological policy places on such socio-economic areas as health, housing, nutrition and communication. In fact, the Andeans have made more progress in establishing a uniform system of color T.V. than in improving the technological and infrastructural base of Bolivia and Ecuador.<sup>270</sup> In sectoral programs for technological development these countries have not fared much better. Decision 89, a subregional effort to develop tropical forest resources, only marginally involves Ecuador. Decision 87 is essentially a bi-lateral hydro-metalurgical research agreement between Peru and Bolivia. Chile, the Pact's technological powerhouse in this field, has not signed Decision 87.

#### Special Fund for Bolivia

The Bolivian private sector, smarting over the lack of technical assistance and credits available to it, has become an outspoken critic of the Andean Development Corporation. The businessmen point out that if Bolivia's GNP were to grow 10% annually, it would take her 110 years to reach the subregion's overall level of development, provided the latter maintained

its present modest 6% per year growth rate. Recognizing these difficult circumstances, the ADC created a special \$1 million fund on May 13, 1974 to expedite Bolivia's implementation of Decisions 28 and 57. The former reserves products not produced in the subregion such as rubber derivatives of petroleum and minerals, synthetic fibers for textiles, and handheld drills for Bolivia under Sectoral Programs of Industrial Development. The Metalworking SPID includes such assignments as drill bits, air compressors and drills. Seventy percent of the fund is to go for plant installation. The remainder is reserved for preinvestment studies. Given the scope of the above assignments the fund is a mere sop.

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Footnote Key

BI	<u>Boletin de la Integracion</u> , Banco Interamericano de Desarrollo, Instituto para la Integracion de America Latina, Buenos Aires
DSA	Department of State Airgram
DST	Department of State Telegram
FBIS	Foreign Broadcast Information Service
GAC	<u>Grupo Andino</u> , Carta Informativa Oficial de la Junta del Acuerdo de Cartagena, Lima
LA	<u>Latin America</u> , published by Latin American Newsletters, Ltd., London
LAER	<u>Latin American Economic Report</u> , published by Latin American Newsletters, Ltd., London

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Table 1. Andean Group: Nominal Pre-Integration Tariffs in the Member Countries, and the Common Minimum External Tariff (CMXT)\*

Sectors	Ad Valorum					
	Bolivia	Chile	Colombia	Ecuador	Peru	(CMXT)
Agriculture	77	133	45	125	57	29
Fishing	25	150	52	102	86	27
Mining	60	132	20	58	65	11
Food Products	49	268	92	192	92	50
Beverages	95	388	75	291	208	64
Tobacco	40	186	143	195	117	42
Textiles	72	190	67	101	103	60
Clothing, shoes	76	283	183	184	210	80
Wood products	78	172	115	121	110	47
Furniture	53	152	77	116	85	52
Paper Products	52	173	64	83	88	40
Printing	45	160	52	53	71	21
Leather products	76	250	86	124	115	45
Rubber products	62	170	98	98	78	58
Chemicals	34	101	32	52	56	32
Petroleum, coal products	31	111	33	57	56	35
Non-metallic mineral products	61	164	72	86	80	42
Basic metals	36	87	31	49	67	27
Metal products	52	149	56	79	76	46
Non-electrical machinery	27	79	35	45	48	43
Electrical machinery	42	110	40	56	60	55
Transport equipment	42	183	76	81	58	42
Other industries	47	164	69	93	90	50
Arithmetic average	54	172	70	106	90	43
Standard deviation	19	68	37	58	41	15

Source: Andean Group: National Tariff Schedules; CMXT: Junta del Acuerdo de Catragena El Arancel Externo Minimo Comun, mimeo, 1971, as cited in Airgram, Unclassified, A-174, Lima Embassy.

\* This chart was prepared prior to Venezuela's entry into the Andean Group.

Table 2. Direct U.S. Foreign Investment in Chile, Colombia, Peru and Venezuela for 1970-1973 (1)  
(Millions of Dollars)

Year	Country(2)	Book value of year's end	Total for all industries	Mining & smelting	Petro-leum	Manufac-turing	Other
1970	Chile	748	-56	4	** (3)	1	-61
	Colombia	698	10	**	-8	11	7
	Peru	688	-22	-21	**	-2	1
	Venezuela	2,704	58	**	-30	50	38
1971	Chile	720	-25	-3	**	-14	-7
	Colombia	744	70	**	11	49	9
	Peru	674	-4	-17	**	4	9
	Venezuela	2,690	-19	**	-102	50	33
1972	Chile	620	-98	-92	**	-2	-4
	Colombia	737	-8	**	-18	6	5
	Peru	712	41	13	**	-2	31
	Venezuela	2,700	10	**	-86	41	54
1973(4)	Chile	619	-1	*	**	-3	1
	Colombia	727	3	**	-29	33	-2
	Peru	793	84	23	**	10	51
	Venezuela	2,591	-112	**	-207	52	43

(1) Changes in direct U.S. Foreign Investment represent net capital flows to or from the U.S. plus reinvested corporate earnings.

(2) Ecuador and Bolivia, lumped in an amorphous "other" category in Department of Commerce data to avoid divulging the identity of individual investment, cannot be shown.

(3) Combined with "other industries" category to avoid disclosure of data for individual companies.

(4) Preliminary 1973 Estimates; the Revised 1973 Estimates will not be released until late 1975.

#### Sources:

Survey of Current Business; November 1972, Vol. 52, Number 11, pp. 30-31;  
September 1973, Vol. 53, Number 9, pp. 28-29; August 1974, Vol. 54, Number 8, Part II, pp. 18-21; published by the United States Department of Commerce.

Note: A minus (-) sign indicated a net reduction in the book value.

Table 3. Stock of Direct Private Foreign Investment, 1967  
(In Millions of U.S. Dollars)

ANCOM	Total U.S. Investment	Grand Total All Foreign Investment
Bolivia	104	129
Chile	879	961
Colombia	627	728
Ecuador	48	82
Peru	660	787
Venezuela	2,555	3,458
<u>Big Three</u>		
Argentina	1,017	1,881
Brazil	1,328	3,633
Mexico	1,364	1,715

Source:

Organization for Economic Cooperation and Development - Development Assistance Directorate, DD-216, Stock of Private Direct Investments by D.A.C. (Development Assistance Committee) Countries in Developing Countries, study prepared in 1967.

Table 4. ANCOM: Product Groups Negotiated Under The Metal Working Industry Program

Product Group	Country <sup>1</sup> of Assignment	Product Group	Country <sup>1</sup> of Assignment
Pulverizers.....	C, Ch	Conical crushers.....	B
Cultivators.....	C, Ch	Machinery for the plastics industry.....	E
Mowers and cutters.....	Ch	Railway rolling stock.....	Ch
Harvestors.....	C	Electric or electronic control instruments.....	E
Compressors, 40 HP or over..	B	Centrifugal & turbo pumps....	C, Ch, P
Pneumatic tools.....	B	Fuel-measure pumps.....	P
Filling & closing equipment.....	C	Centrifuges.....	E
Packaging equipment.....	P	Fluid-pass elements (valves) ..	C, Ch
Ceramics industry mach- inery.....	P	Switches for electrical in- stallations, under 1,000 Volts.....	B, E
Hoists.....	P	Switches for electrical in- stallations, over 1,000 Volts.....	Ch, P
Grain milling equipment....	C	Drawing & calculating instru- ments.....	P
Dairy equipment.....	E	Control instruments.....	Ch
Generators & motors (elc.) ..	Ch, P	Small aircraft.....	C
Rectifiers.....	Ch, P	Dental equipment.....	C, Ch
Transformers.....	Ch, P	Surgical instruments.....	C, Ch
Bakery equipment & cacao processing machinery.....	C	Clocks & watches.....	E
Oil & soap industry mach- inery.....	P	Speed changers.....	P
Foundry equipment.....	C	Hydraulic systems.....	E
Scissors, razors, etc.....	C	Gas containers (seamless) ..	P
Drills & reamers for mech- anical use.....	E	Sealed refrigeration com- pressors.....	C, Ch
Treading tools.....	B	Semi-sealed refrigeration compressors.....	P
Sinterized plates & rods...	B	Open refrigeration com- pressors.....	C
Mechanical presses.....	Ch, P	Evaporators (roll-bond) ..	P
Hydraulic presses.....	E	Sealed absorption units.....	B
Milling tools.....	Ch	Dry cleaning machinery.....	C
Shapers.....	E	Sewing machines.....	C, Ch
Forging machines.....	C	Hand looms.....	C, Ch, P
Surface finishing equip- ment.....	C	Fixed-focus cameras.....	Ch
Drills.....	P	Projectors (fixed).....	P
Threading machine tools....	B	Pressure gauges.....	E
Mechanical saws.....	B	Thermostats.....	P
Rock bits for mining.....	Ch, P	Taximeters & parking meters..	P
Drills for mining.....	P	Toys.....	C
Rock bits, three-cone type, with insert, for mining...	Ch	Shoe & leather working machinery.....	C
Three-cone type bits, with- out insert for petroleum drilling.....	B		
Perforating equipment.....	P		
Crushers & other mining equipment.....	Ch, P		

<sup>1</sup> B-Bolivia, C-Colombia, P-Peru, Ch-Chile, E-Ecuador

Table 5. Andean Development Corporation, State of Operations  
as of October 31, 1974

(Projects and Studies with Signed Contract)

Country	Name of Project	Contract Date	(thousands of US dollars) <sup>1/</sup>		Interest Rate
			Approved	Disbursed	
Bolivia	Tin Smelter Expansion	1-23-74	2,208	300	8.0%
	Network of Rice Silos	5-11-72	1,300	1,195	8.5%
	Patacamaya - Tambo Highway	11-12-73	750	250	5.0%
	Oilseeds Agriculture Program	10-8-73	356	226	8.0%
	Projects 50 List	9-9-71	265	265	6.0%
	Agro-Industrial Projects	8-11-72	256	52	6.0%
	General Investments-S.A.	11-5-72	180	180	10.0%
	Commercialization of Nonphosphorus Metals	5-11-72	98	97	6.0%
	Construction Materials	5-11-72	75	67	6.0%
	*Metalworking Projects - Technical Assistance	7-30-73	48	29	6.0%
	Total		5,536	2,661	
	National Glass Factory (Fanavisa)	5-26-72	800	695	8.5%
	Esmeralda Forestry (Foresa)	8-21-74	708	--	8.5%
Ecuador	Ecuadorean Tuna S.A. (Ecuatun)	10-25-71	500	500	8.5%
	*Cotopaxi Steel (Indaco I)	2-10-74	300	300	8.5%
	*Cotopaxi Steel (Indaco II)	9-20-74	258	--	8.0%

Table 5. Andean Development Corporation, State of Operations  
as of October 31, 1974 (cont'd)

(Projects and Studies with Signed Contract)

Country	Name of Project	Contract Date	(thousands of US dollars) <sup>1/</sup>		Interest Rate
			Approved	Disbursed	
Ecuador (cont'd)	Production and Processing of Tea (Te Zulay, S.A.)	5-26-72	250	250	8.5%
	Selva Alegre Cement Ecuatorianos Cement (Cemec)	5-26-72	200	200	6.0%
	Cacao Processing (Salco)	2-13-74	128	118	5.0%
	Petroleum development-Technical Assistance Studies 50 List Pasteboard 50	5-26-72	120	120	8.5%
		10-26-71	50	24	--
		5-26-72	42	42	6.0%
		11-5-73	25	25	6.0%
	Total		3,381	2,274	
	LAN - Chile	6-21-74	6,750	1,688	--
	*National Factory of Machines and Tools (Fanamhe)	7-29-74	2,050 <sup>2/</sup>	--	8.0%
Chile	*Refrigeration Units (Coreza)	7-30-74	1,800	1,038	8.0%
	*Metalworking Project	10-23-73	195	184	5.0%
	Total		10,795	2,910	

Table 5. Andean Development Corporation, State of Operations  
as of October 31, 1974 (cont'd)

(Projects and Studies with Signed Contract)

Country	Name of Project	Contract Date	(thousands of US dollars) <u>Approved</u>	<sup>1/</sup> <u>Disbursed</u>	Interest Rate
Peru	Petroleum of Peru (Petro-Peru)	2-5-74	1,205	1,073	8.0%
	Study of Phosphorous Deposits (Minero- Peru)	2-5-74	264	--	6.0%
	Project of Phosphorous Deposits (Minero-Peru)	2-5-74	156	--	8.5%
	Total		1,625	1,073	
Venezuela	Bridge over the Limón River	8-14-73	1,511	1,511	8.5%
	Sucam-Proexpo Credit line	7-22-74	320	--	7.0%
	Texfin-Proexpo Credit line	10-18-73	118	--	7.0%
	El Campo S.A.- Proexpo Credit line	8-26-74	65	64	7.0%
	Consuma S.A.-Proexpo Credit line	12-21-73	64	64	7.0%
	Total		2,079	1,639	
	Cumulative Total <sup>3/</sup>		23,416	10,557	

Table 5. Andean Development Corporation, State of Operations  
as of October 31, 1974 (cont'd)

(Projects and Studies with Signed Contract)

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- 1/ Amounts are rounded off to the nearest thousand.
  - 2/ The interest rate for \$30,000.00 of this loan is 5%.
  - 3/ This cumulative total does not include multinational studies or projects pending as of October 31, 1974.
- \* These projects marked with an asterisk appear to fall within the purview of Decision 57.

Source: The above table was prepared by the ADC from information provided by the Junta as cited by the Agenda de Primera Asamblea Extraordinaria de Accionistas 21 al 22 de Noviembre 1974, Caracas CN/35, Octubre 31, 1974, p. 138.